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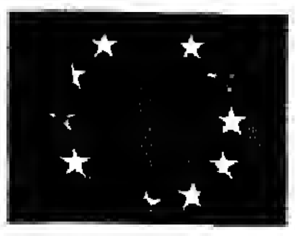

After Amsterdam

EU faces even tougher challenges

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Management Consultancy

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World Business Newspaper http://www.FT.com THURSDAY JUNE 19 1997

EU summit ends in deadlock and diluted treaty

German political parties and French leaders expressed cautious satisfaction yesterday with the outcome of the European Union summit in Amsterdam. Talks ended in the early hours, producing a watered-down treaty and papering over Franco-German differences on jobs and budget austerity. But it put off institutional reforms aimed at smoothing the way for enlargement until the EU admits new members from central and eastern Europe early next century. That makes it likely EU leaders will have to convene another conference to try to resolve the issue. The deadlock followed debate at the summit between larger members, seeking to tilt the balance of power to reflect their populations, and smaller countries, battling to preserve their over-representation. Summit reports, Page 2; Editorial comment, Page 11

Finance chief to quit in wake of defeat

Thai finance minister Amnuay Viravan, left, will submit his resignation today in a move likely to throw the country's financial markets into further disarray. Prime minister Chavalit Yongchaiyudh brought in Mr Amnuay, a non-MP and former president of Bangkok Bank, to shore up investor confidence in Thailand's struggling economy. But s humiliating defeat on an issue of fiscal policy made it clear that Mr Amnuay did not have the political clout to push through tough measures to clean up the country's ailing financial system. Page 12

Rival faction 'holds Pol Pot': Khmer Rouge leader Pol Pot is reported to have surrendered to a rival faction of former colleagues in a remote guerrilla stronghold in northern Cambodia. Cambodian deputy army chief of staff Gen Nhek Bunchhay said they planned to bold him until be could be judged by an international tribunal for his role in the genocidal regime he led that caused the deaths of 2m Cambodians between 1975 and 1979. Page 4

Italian pension talks: Italy's centre-left government initiated talks with trade unions and employers on cuts in the country's costly state-run pensions system. The German cabinet, meanwhile, approved plans to overhaul state pensions and make 1.8m civil servants contribute to their retirement benefits. Page 3

Foreign demand boosts Germany: The German economy resumed its growth trend early in 1997, but it is too early to say whether domestic demand is developing strongly enough to match demand from abroad, the Bundesbank said in its monthly report. Page 8

Polish offer oversubscribed: An initial public offering in Bank Handlowy, one of Poland's largest banks, has been heavily oversubscribed. Institutional investors are set to receive only six shares of every 100 ordered. The offer values the bank at about $1bn. Page 13

Italians in Romanian deal: The Italian machine tool industry has set up a consortium to buy low-cost parts from Romania, in a further sign of increasing trade in engineering components between western Europe and the former communist bloc. Page 6

Bakun rights issue scrapped: The financing for Malaysia's Bakun hydroelectric dam, one of south-east Asia's most significant infrastructure projects, auffered another setback when as a planned M$3bn (US$1.2bn) rights issue to help fund it was scrapped. Page 13

Nigeria's debt arrears up $10bn: Nigeria has accumulated $10bn in arrears on debt repayments to western creditors over three years while failing to account for earnings from oil exports, says the World Bank. Page 12

Tractebel's Kazakh gas contract: Tractebel of Belgium has won a contract to manage Kazakhstan's natural gas pipeline network for 15 years, beating Argentine oil company Bridas. Page 6

DKB auction ban: Japanese bank Dai-Ichi Kangyo was suspended from taking part in auctions of Japanese government bonds because of its role in recent financial scandals. Page 13

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7,708.3	(-52.46)
NASDAQ Composite	1,431.34	(-11.77)
Europe and Far East		
CAC40	2,751.74	(-10.88)
DAX	3,739.27	(-11.21)
FTSE 100	4,657.9	(-25.2)
Nikkei	20,497.85	(-95.81)

US LUNCHTIME RATES

Federal Funds	5⅞%
3-mth Treas Bills: Yld	5.062%
Long Bond	99⅞
Yield	6.685%

OTHER RATES

UK: 3-mo Interbank	6⅞%	(6⅞%)
UK: 10 yr Gilt	100⅞	(100⅝)
France: 10 yr OAT	99.21	(99.22)
Germany: 10 yr Bund	102.03	(102.01)
Japan: 10 yr JGB	104.3124	(104.53)

NORTH SEA OIL (Argus)

Brent Dated	$17.17	(17.48)

GOLD

New York Comex (Jun)	$339.1	(341.8)
London: close	$340.85	(342.15)

DOLLAR

New York lunchtime		
£	1.6367	
DM	1.7345	
FFr	5.8410	
SFr	1.4465	
Y	113.335	
London:		
£	1.6367	(1.6380)
DM	1.7270	(1.7338)
FFr	5.8258	(5.8488)
SFr	1.4443	(1.4478)
Y	113.190	(113.42)
Tokyo close: Y 113.505		

STERLING

DM	2.8318	(2.8396)

Russia and China to agree $7bn energy deal

Plan to develop oil and gas fields and build pipeline

By Tony Walker in Beijing

China and Russia are poised to agree on the $7bn joint development of oil and gas fields in eastern Siberia, including construction of pipelines to China.

An official at the Russian embassy in Beijing said two long-awaited "framework" energy agreements, or memorandums of understanding, would be signed during next week's visit to China by Mr Victor Chernomyrdin, the Russian prime minister.

The agreements will deal separately with the development of oil and gas deposits and pipeline construction.

China has begun a drive to increase energy supplies since it became a net importer of oil in 1993.

Imports are expected to rise to 50m tonnes by 2000 from 22m last year, China produced 157m tonnes in 1996.

Russia and China have been mulling over development of rich gas fields in the Krasnoyarsk, Irkutsk and Yakutsk areas of Siberia and construction of at least one pipeline to China's Yellow Sea coast near Shanghai.

Under the plan, 20bn cubic metres of gas would be shipped to China annually, with provision for re-export to South Korea and Japan. Japanese and South Korean companies would be invited to invest in the pipeline project.

Chinese and Russian leaders are pushing for a more extensive commercial partnership, and joint development of Siberian resources would speed this. At a summit meeting in Moscow earlier this year, Mr Boris Yeltsin, Russian president, and Mr Jiang Zemin, his Chinese counterpart, discussed ways in which two-way trade might be increased from about $7bn last year to $20bn.

China depends on coal for about 80 per cent of its energy, but wants to use more gas. Mr Li Peng, prime minister, recently urged greater use of China's abundant reserves.

According to a study by the East-West Centre in Hawaii, China's natural gas consumers will double by the end of the century, leaving China in deficit by one-quarter of its total demand, even with anticipated production increases. China's natural gas output in 1996 was 20.1bn cubic metres.

China's national oil company recently agreed to pay $4.3bn for a 60 per cent stake

China visit: Chernomyrdin

in Kazakhstan's Aktyubinsk oil company as part of moves to secure long-term supplies while reducing China's looming oil import bill.

Mr Chernomyrdin will be in Beijing from June 26 to 28 as part of a growing series of Sino-Russian contacts.

Editorial Comment, Page 11

Nigeria's oil riddle, Page 12

Worldwide demand for energy expanded by 3 per cent last year, the highest growth rate since 1988. In its annual statistical review of global energy, BP said that present growth in demand is more than double the average over the last 10 years.

Mr Peter Davies, the review's editor, said 1996 was "an exceptionally strong year for energy consumption, primarily due to an upturn in the economic cycle and unusually cold weather in the northern hemisphere."

Big increase in demand for energy, Page 22

Turkey's first Islamist prime minister Necmettin Erbakan (left) with coalition partner Tansu Çiller. Mr Erbakan resigned yesterday, setting in motion a plan under which Mrs Çiller, leader of the secular True Path party, will take over the premiership. Report, Page 3

Picture: Reuter

BAe and Lockheed link to develop strike fighter

By Bernard Gray in Paris

British Aerospace has joined Lockheed Martin, the US defence giant, in a $100bn programme to develop the next generation of light fighter aircraft for the 21st century.

The alliance raises the long-term possibility of a merger between the two companies. After months of prevarication, BAe yesterday finally rejected offers from the rival Boeing team, to join Lockheed in its bid to develop the joint strike fighter.

To win BAe's hand, Lockheed has offered the company a 12 per cent share of the development and production work on the entire JSF programme, a deal that is likely to be worth more than £10bn ($16.3bn) to BAe.

The alliance, which is likely to be extended to other areas according to secret memoranda agreed between the two companies, could also lead to close joint ventures or even a merger between Lockheed and a future European aerospace company in the long term.

Mr John Weston, BAe's joint managing director, this week called for Europe to form a single aerospace and defence company. Other senior BAe executives believe that, if such a company was set up, it could eventually form a partnership with Lockheed to provide a rival to Boeing in both defence and civil markets.

Lockheed, which is active almost entirely in military-related businesses, is more cautious. But the company has been alarmed by the recent agreement between Boeing and McDonnell Douglas to merge – a plan that would create an aerospace leviathan with a turnover of about $48bn a year.

Lockheed has repeatedly said that it does not wish to re-enter civil aircraft manufacturing after it was brought to its knees by failure in the airliner business in the 1970s. However, industry analysts believe an eventual deal with Airbus remains a possibility.

BAe now joins Lockheed and its existing JSF partner, Northrop Grumman, in producing a design for the light fighter in competition with Boeing.

Development and trials will continue for the next four years, with the Pentagon making a final selection on which aircraft to buy in 2001.

Whichever group wins is likely to dominate the world fighter business in the early decades of the 21st century.

The deal was only struck in the early hours of yesterday morning after months of negotiations between BAe and the two US companies. Boeing had

Continued on Page 12

A billion-dollar gamble, Page 6

Europe looks to Jospin for sign on Emu policy

By David Buchan in Paris

France's European Union partners and financial markets will today look to Mr Lionel Jospin, Socialist prime minister, for reassurance that Paris is still committed to early entry into economic and monetary union.

Mr Jospin will set out his government's programme in an hour-long address to the National Assembly, in the wake of the Amsterdam summit of EU leaders.

The summit agreed to French demands that employment receives a higher priority in the economic management of Emu.

But Mr Jospin's fellow leaders were unsettled by comments from Mr Pierre Moscovici, French European affairs minister, who indicated there was nothing automatic about the country's move towards Emu. He suggested the decision would turn on the findings of a forthcoming audit of French public finances, due to be completed by mid-July.

Mr Jospin's aides disavowed Mr Moscovici's comments, but preliminary French treasury reports show the country is overshooting deficit targets which potential Emu members have to meet this year.

In his "general policy" statement to the National Assembly, Mr Jospin is expected to announce measures to put unemployed young people on the public payroll, to make a small reduction in value added tax, and to raise the national minimum wage on July 1.

France's European partners will be looking to Mr Jospin for reassurance that Paris remains serious about the fiscal restraint required to qualify for the euro, the proposed single currency.

The Socialist-led majority won power promising not to take extra austerity measures, even if the 1997 deficit looked like exceeding the target of

Continued on Page 12

Summit reports, Page 2

Editorial Comment, Page 11

De Beers' diamond sales a record despite setbacks

By Kenneth Gooding in London

The diamond cartel organised by De Beers of South Africa yesterday reported record first-half sales even though exports from Russia, one of the biggest producers, cama to a virtual halt because of bureaucratic hold-ups.

Supplies from two other substantial producers, Angola and Congo (formarly Zaira), dropped because of political turmoil in those countries.

De Beers' London based Central Selling Organisation said first-half sales of rough, or uncut, gem diamonds reached $2.88bn, nearly 5 per cent higher than the previous record of $2.748bn in the same months last year.

Mr Tim Capon, a De Beers' director, said: "The diamond market has not shot up. It is simply that we are taking a greater share."

The CSO ended its contract with Russia in December but still intended to buy from that country. In tha half-year, the CSO committed to buy fiva consignments of diamonds but, because Russia had not yet issued export licences, it had not been able to bring them to the west, he said.

The shortfall – he refused to give the valne – had been made up by extra South African output. This solution had also been used in the first half of both last year and 1995 when bureancratic mix-ups delayed exports from Russia. "That balanced out later in the year when Russian exports came out. It is open to question whether that will happen this year," Mr Capon said.

Negotiations aimed at setting a new contract with Russia started more than 18 months ago but political problems standing in the way of agreement still remained to be solved, he said. The underlying difficulty was that Russia's federal government did not believa it was receiving its fair share of diamond revenue.

De Beers would prefer Russia to rejoin the cartel "on the right terms", ha said. Bnt increasing output from Botswana, the biggest producer in valne terms, and at other mines, as well as the fact thet Russia's diamond stocks were dwindling, meant "we are better able to supply the market even without Russia".

Retail diamond jewellery sales this year were expected to remain flat. The US, the biggest market with 33 per cent of total sales, continued to grow at 7 per cent a year. Conditions in Japan, second-biggest market with 28 per cent, remained difficult.

Bnt analysts expect CSO sales to top $5bn for the first time this year, compared with $4.8bn in 1996.

CONTENTS

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The achievements of the Amsterdam summit cannot mask the divisions that remain

Enlargement may test EU's treaty

The European Union's Treaty of Amsterdam, a modest product laboriously conceived, looks solid enough to permit the process of enlargement into central and eastern Europe.

Yet if that is the good news, less welcome is the realisation that the inconclusive wrangle at this week's EU summit over institutional reform showed just how determined club members are to protect their existing rights.

The European Commission confirmed yesterday it would publish on July 16 its long-awaited opinions on which of 10 former Communist countries are ready to join Cyprus in opening accession negotiations early next year.

Simultaneously, the Commission will unveil proposals for overhauling the Common Agricultural Policy and regional aid to help absorb the impact of poorer, farm-intensive economies joining the Union. Separate ideas on reforming the EU'e hudget are expected as well.

Yet if tempers are lost over reform of the EU's institutions, notably how to re-weight the votes of member-states in the decision-taking Council of Ministers, then sparks will surely fly when EU leaders turn to budgetary matters, alterations in the CAP and geopolitical qnestions such as which eastern European countries head the applicants' queue.

These dilemmas could be put off as long as EU leaders were wrapped up in the Maastricht treaty review conference, which ambled towards its conclusion in Amsterdam. Yet as one British official put it, "The EU has spent too much time engaged in theological navel-gazing. We believe it is time to change gear."

A close look at the results of the IGC points to a sobering conclusion. After the traumatic experience of the 1992 Maastricht treaty, which harely scraped through ratification in Denmark, France, Germany and the UK, countries are much more mistrustful abont ceding national sovereignty and much more attentive to public opinion.

The result is that the Amsterdam treaty reads more like a party political manifesto than a hallowed constitutional document.

The Austrians and British talked up new clauses on animal welfare; the Belgians praised a declaration on local sports teams; the French and Spanish inserted new language on remote regions; and everyone praised a new employment chapter, which is long on exhortation hnt acknowledges that national governments rather than Brussels should take the initiative.

The turnaround in the German position is striking. Five years ago, Chancellor Kohl, champion of unification, agreed at Maastricht to trade in the D-Mark for the single currency and a vague promise of "political union".

In Amsterdam, however, Mr Kohl was one of the most dogged defenders of national and regional rights at the expense of new EU-wide powers. He blocked the extension of majority voting in industrial policy, social policy, transfer of pension and social security rights, recognition of professional diplomas, and several other provisions covering the free movement of people and services.

Tha Chancellor also insisted that the switchover to majority voting in asylum, visa and immigration should be subject to unanimity when it comes up for review in five years' time, much to the dismay of the European Commission.

German officials said Mr Kohl's hard line reflected pressure from the Länder, a view supported by his lone but ultimately successful campaign to insert a treaty declaration giving the powerful Landesbanks a measure of protection from EU competition rules.

"Kohl is too weak in Germany," concluded one senior EU diplomat, "but he is too strong in Europe."

The summit showed the Chancellor is pinning all his hopes on the single currency, the euro. For him, monetary union on January 1, 1999 – not the more elusive concept of political union – is now the chief tool for embedding Germany in a united, democratic Europe.

Emu shoe-ins such as the Belgians, Dutch and Luxembourgers are delighted; Emu aspirants such as the Spanish, Portuguese and Irish are relieved. But the Chancellor's words leave him ever more exposed inside Germany, where left-wing and right-wing opponents are calling loudly for the Emu entry criteria to take precedence over the timetable.

Moreover, Mr Kohl's commitment to Emu sits oddly with the views of the new left-wing government in Paris, which seems in two minds about the project if the price is more public spending cuts and fiscal austerity.

But the Socialists' threat to block approval of the German-inspired stability pact, designed to enforce budgetary discipline in the future euro zone, surely signals trouble to come. The summit compromise leaving the pact intact, while offering Paris words on growth and employment, cannot hide the divisions over macroeconomic policy between Bonn and Paris.

The other wild card in the relationship is enlargement. Mr Kohl has made clear he favours three candidates only in the first wave of new entrants: the Czech Republic, Hungary and Poland. Others, including France, are wary of anything that smacks of Grossdeutschland. Hence the second message from Amsterdam: no enlargement without monetary union.

Mr Kohl may not like it, nor will Mr Tony Blair, the new Labour prime minister. But that is how it is.

Lionel Barber

EU TREATY OF AMSTERDAM

- Zone of freedom, security and justice to come into force for EU citizens within five years of treaty's ratification
- Member-states which violate basic freedoms face suspension of voting rights in Council of Ministers
- Freedom of movement for everyone in EU, but UK and Ireland retain border controls
- Unanimity required for at least five years in decisions on immigration, visa policy and political asylum
- Council'e secretary-general, rather than high-ranking politician, to represent EU foreign policy to outside world
- Any state which believes its vital interests are at stake can block majority votes on implementing foreign policy
- Possible future inclusion of Western European Union into EU, but Nato remains central to Europe's defence
- Agreement in principle that Commission should have only 20 members after enlargement, with one member per state
- No agreement on how to reweight votes of member-states in Council. To be decided nearer to enlargement
- Majority vote will enable some EU states to move together without waiting for others, but only in limited policy areas

New members wait in line for EU entry

By Anthony Robinson, East Europe editor

Central Europeans are getting used to the dilatory ways of western institutions. Failure of the Amsterdam summit to prepare for enlargement to the east, or even indicate which of the 10 aspirant members would start entry negotiations, came as a disappointment rather than a surprise.

"The most important thing is that the shortcomings of the summit will not slow the start of enlargement. The talks will start as originally planned six months after the conclusion of the inter-governmental conference," Mr Laszlo Kovacs, Hungary's foreign minister, said.

He saw possible advantage in the 15 existing members' inability to decide on voting and other reforms. "We do not mind if they wait for us to join before deciding on these matters because then we could have a say in them."

Hungary, with Poland and the Czech republic, has been chosen for the first wave of Nato expansion and expects to join the EU in the same company. "We want accession talks to begin with those most qualified; we do not want the convoy effect, where the speed of entry is determined by the pace of the slowest," Mr Kovacs added.

Mr Wlodzimierz Cimoszewicz, the Polish premier, also welcomed the end of the IGC and confirmation that enlargement talks were to start in six months. "We are convinced that Poland will be in the first group of countries," he declared.

Poland, with 39m people, is the largest applicant. Opinion polls show 80 per cent support for Nato and EU membership. But Mr Cimoszewicz warned local pro-EU organisations negotiations "would reveal the differences in interests between Poland and the EU".

Much still had to be done to adapt Poland's laws, institutions, administrative methods and the economy to EU standards. "We have not yet had a serious, detailed debate about the duties we will take on with EU membership," he added.

Polish EU experts are prepared for tough negotiations. They would prefer comprehensive talks dragging on to 2002 rather than talks which failed to spell out rights and obligations in areas such as agriculture, access to structural funds, and environmental and social issues.

Mr Pavel Telicka of the Czech foreign ministry said Prague saw the summit's outcome as "the maximum feasible," given modest expectations. "The text is quite a good one. It talks about the first enlargement, implying there will be several waves, and I am sure we will be in the first."

The EU's lack of enthusiasm for enlargement and its obsession with the Emu project is most disappointing to countries such as Slovenia and Estonia, which are close to qualifying for accession on economic grounds. It also implies a long wait for others euch as Bulgaria, Romania and the other two Baltic states.

Slovakia, already excluded from the first round of Nato expansion because of the autocratic ways of Mr Vladimir Meciar, its prime minister, is also likely to remain excluded from the first EU entry round.

Additional reporting by Anatol Lieven in Budapest, Vincent Boland in Prague and Christopher Bobinski in Warsaw.

President Chirac and Chancellor Kohl, Amsterdam summit 1997

EU CALENDAR

Luxembourg assumes EU presidency	Commission recommends reform to Common Agricultural Policy and regional aid policy	
Commission recommends candidate countries for enlargement	EMI report on convergence progress	EU leaders decide with which countries to open accession negotiations
UK assumes EU presidency	Accession negotiations begin	
Creation of central bank running single monetary policy. Irrevocable locking of exchange rates and fixing of parities		Negotiations on new EU budget
Council of Ministers decides on Emu entrants	Austria assumes EU presidency	German national elections
Germany assumes EU presidency	Launch of single currency	Current Common Agricultural Policy reform ends
End of accession negotiations	Spain assumes EU presidency 2002	Timetable for introduction of notes and coins
Periods of ratification of new members	Entry of new members	

Summit grants MEPs' more powerful say

By Emma Tucker in Brussels

The European Parliament emerged as one of the few winners at this week's Amsterdam summit as the list of policy areas over which it has some legislative power was extended.

"The parliament was the winner," declared Mr Elmar Brok, the German Christian Democrat MEP, as negotiations to revise the EU's constitution drew to a close early on Wednesday morning.

Under the new treaty, more legislation will be adopted according to the co-decision procedure. First introduced in the Maastricht Treaty, co-decision grants the parliament the right to amend or reject a legislative proposal put forward by the European Commission. If the council rejects the parliament's amendments, the Commission has to try to broker a compromise. If the conciliation does not work, the legislation is thrown ont.

So far, the powers have been limited to single market harmonisation legislation, research and development, some environmental areas and proposals dealing with the free movement of workers.

But under the new Amsterdam treaty, co-decision will he extended to other domains including social policy, transport, combating fraud against the EU budget, statistica, public health, and measures dealing with the openness and transparency of EU institutions.

However, moves to extend the parliament's remit to the freedom of movement and social security for immigrant workers were defeated. The parliament will also continue to be excluded – in all but a consultative way – from legislation concerning the structural funds.

The parliament has long been pushing for an increase in its powers, but the deal struck in Amsterdam could prompt misgivings in some industrial circles. Industry has criticised the 659-seat assembly for using the co-decision procedure to enhance its own status at the expense of the substance of legislation.

"It is difficult to predict, but I have always said that while you have a parliament with little responsibility you can't expect it to act responsibly," said Mr Zygmunt Tyszkiewicz, secretary-general of Unice, the employers' organisation.

While increasing the power of the European Parliament, the EU's leaders also wrested some back for national parliaments. A new protocol will oblige the Commission to submit proposals "promptly" to national legislatures, and the Council to wait six weeks before considering them, so national parliaments can make their views known.

Jospin caught in minimum wage trap

Low-paid workers provide an early challenge for France's new government, writes David Owen

July 1 is always a red letter day for France's lowest paid workers. It is whan the annual pay rise accorded by the government to the 2.2m empioyees receiving the *salaire minimum interprofessionnel de croissance* (Smic), the country's grandly entitled minimum wage, becomes effective.

This year, the level at which the annual increment is fixed stands to be scrutinised unusually closely. This is because it may provide an early pointer to the approach Mr Lionel Jospin's new Socialist-led government intends to adopt on industrial relations.

Any increase will have potentially important effects for the country's public deficit, since companies paying employees up to 1.33 times the Smic are currently entitled to an exemption from some social security charges. The more the minimum wage is increased, the more additional employees will fall into this bracket and the greater will be the government's loss of revenues from the exemptions.

Some economists expect the government to neutralise this effect by tightening the eligibility criteria. In tha meantime, there is a risk that a sizeable increase in the Smic will make it harder for the new government to restrict France's public deficit to 3 per cent of gross domestic product, and hence to qualify for the European single currency.

Markets and employers will also have their concerns heightened if the rise is large. They fear a period of indulgence towards the left's trade union supporters and are warning that unemployment – already at a post-war record 12.8 per cent – could be driven still higher.

Representatives of those most directly affected by the coming decision have been staking out their positions ever since Mr Jospin's remarkable election victory on June 1.

The pro-Communist CGT trade union, headed by Mr Louis Viannet, says it wants the gross monthly wage lifted by a massive 32.7 per cent from FFr6,406 ($1,097.5) for 169 hours to FFr8,500. "We consider it is very difficult to live on less than that," the CGT says. However, it is widely thought the union would in fact be content with a 10 per cent increase.

Ms Nicole Notat, secretary general of the CFDT and the most moderate of the main union leaders, has called for an increase of at least 4 per cent. But she also wants the purchasing power of those on the minimum wage to be lifted further by gradually removing their obligation to pay health insurance contributions.

She suggests an eqnivalent sum could be raised instead by increasing the *contribution sociale généralisée* (CSG), a welfare tax on all taxpayers created by the Socialists in 1990 to shift some of the burden of financing France's generous social security system from the workforce.

On the employers' side, the clothing industry – one of the most affected by the minimum wage since about one in three of the sector's employees are paid it – has already called for compensation measures. According to the Union Française des Industries de l'Habillement, a rise in the Smic without such compensation would have "disastrous effects in terms of loss of jobs and company failures".

Mr Jean Gandois, president of the Patronat employers' federation, said in a recent statement that, if French businesses were not to be discouraged, the "global cost of work, including social charges, must not increase in real terms".

He also called for any increase in the Smic above inflation – the annual rise in consumer prices is currently just 0.9 per cent – to be compensated. "Today French companies in all areas of manufacturing industry that are subject to international competition and in many service industries, including tourism, cannot withstand… a big increase in the Smic", he said.

The government, which is expected to fix the level of the increase at next Wednesday's cabinet meeting, has so far given no indication of the figure. But it is expected to come under strong pressure from its Communist coalition partner, which campaigned for a FFr1,000 increase in the gross monthly rate.

"If it is not FFr1,000, we would like an increase of about FFr500," the Communist party says. It considers a rise of that magnitude "a demand that is becoming irresistible for a government of the left".

Observers largely believe that an inflation-busting rise, of 4 per cent or more, is likely – not least because 4 per cent was the rise accorded by the previous centre-right government in 1995.

"Politically it may be a bit delicate to raise it by less", says Mr Jean-François Mercier, an economist with Salomon Brothers. Mr Eric Chaney, senior economist with Morgan Stanley, says his guess is for an increase of 5 per cent – a level that would have "a negative effect on the job market for unskilled workers".

An increase of less than 4 per cent, meanwhile, might still be enough to alarm the markets. But it would be widely interpreted in France as a sign Mr Jospin was prepared to stand np to the unions – and his coalition partners.

Another problem noted by economists is that the companies with the highest proportion of employees receiving the Smic tend to be the sort of small enterprises which can least afford to stump np for a big increase.

Labour ministry statistics show that the proportion of employees on the minimum wage is 13 times higher in companies with between one and nine employees than in those with 500 or more.

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EUROPEAN NEWS DIGEST

Reveal past, Poles told

Mr Aleksander Kwasniewski, the Polish president, has defied his former communist supporters in the Left Democratic Alliance (SLD) and signed a law forcing parliamentary candidates as well as prospective senior administrative officials to admit publicly to former links with the communist security services. At the same time Mr Kwasniewski has set September 21 as the date for Poland's parliamentary elections, when the Solidarity trade union-led opposition will seek to wrest power from the SLD and the Polish Peasant party (PSL), its junior coalition partner.

The measure closes Poland's long and bitter debate on how far to go in rooting out former internal security operatives. The SLD has argued that present security operations would be jeopardised if each secret links were revealed. In signing the bill, Mr Kwasniewski ignored appeals from Mr Wlodzimierz Cimoszewicz, his own prime minister. *Christopher Bobinski, Warsaw*

Compensation for Airtel

A negotiated settlement to compensate Airtel, Spain's second mobile telecommunications operator, has ended one of the Madrid government's longest deregulatory battles with the European Commission. The dispute dates from Airtel's Pta85bn ($586m) payment to the government in December 1994 to obtain the cellular licence: Telefónica, the national telecoms operator which was at the time controlled by the government, was not charged a fee when it set up a rival mobile network.

The deal secured by the government and the Commission and accepted by Airtel and Telefónica yesterday, repays Airtel in kind rather than in cash. Airtel, whose shareholders include British Telecommunications and Airtouch Communications of the US, is awarded a free PCN licence, a reduced connection fee, more frequencies for its cellular network and an extension of its licence in the fast expanding domestic mobile phone market. *Tom Burns, Madrid*

Yugoslav debt talks to resume

Mr Danko Djunic, the new Yugoslav deputy prime minister, will make a fresh effort to reach a debt agreement with London Club commercial bank creditors next week after a break of more than six months. "We go to London with concrete proposals," he told Reuters. Yugoslavia, consisting of Serbia and Montenegro, inherited an estimated $2bn in commercial debt after the break-up of the former Yugoslav federation in 1991 and badly needs new access to international capital markets.

The talks are due to start on June 23.

Other important issues include Belgrade's readiness to share former Yugoslavia's assets with the other successor republics, and IMF membership. *Anthony Robinson, London, and Reuter, Belgrade*

Ferries must count heads

European Union transport ministers agreed yesterday to force ferry operators to record details of passengers and crew carried on longer voyages, to help rescue services at accidents.

Under the new rules, ferries sailing from EU ports will have to count passengers and crews on short trips and register the names, gender and age bracket of passengers and crew on voyages of more than 30 nautical miles.

"When we remind ourselves that it took two whole days in the wake of the sinking of the Herald of Free Enterprise to discover how many people had been lost and who they were, we can only begin to imagine the appalling experience of families," Mr Neil Kinnock (above), commissioner for transport, said, referring to the 1987 ferry disaster outside the Belgian port of Zeebrugge.

Mr Kinnock said the new rules would require registration of passengers and crew on all cross-Channel ferry routes. The measures, which still require final European parliamentary approval, are set to come into force on the last day of 1999, 18 months later than originally proposed. *Reuter, Luxembourg*

Brussels moves on BSE

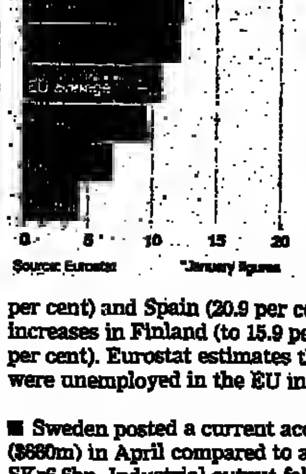
The European Commission yesterday reintroduced proposals for materials at risk of carrying BSE, or "mad cow" disease, to be removed not only from cattle carcases, but from sheep and goats as well. Mr Franz Fischler, agriculture commissioner, tried to get the measures adopted last year after scientific experiments suggested that BSE, thought to have originated as scrapie in sheep, could be transmitted back to other ruminants.

EU veterinary experts and many EU states rejected the measures last year as unnecessary. But Mr Fischler, and Mrs Emma Bonino, the commissioner recently made responsible for consumer protection, believe they have stronger evidence this year that the new controls are vital to prevent the spread of BSE. They want the head, including the brain and eyes, and spinal cord of cattle, sheep and goats over 12 months old, along with the spleen of sheep and goats, to be excluded from the human and animal food chain.

Veterinary experts will hold preliminary discussions on the new proposals tomorrow and EU agriculture ministers may discuss them next week, but a final decision is not expected until the autumn. *Neil Buckley, Brussels*

ECONOMIC WATCH

Unemployment stable



Seasonally adjusted unemployment in the EU remained stable in April compared with March at 10.8 per cent, Eurostat reported yesterday. The rate has been unchanged for several months and is only 0.1 points below that of April 1996. However, compared with a year ago, joblessness among the under-25s has fallen to 20.9 per cent from 22.0 per cent.

In recent months unemployment has fallen in in the UK (to 7.0 per cent), Ireland (10.9 per cent), the Netherlands (5.5 per cent) and Spain (20.9 per cent). But there were increases in Finland (to 15.9 per cent) and Sweden (10.8 per cent). Eurostat estimates that a total of 18.1m people were unemployed in the EU in April. *Foreign Staff*

■ Sweden posted a current account surplus of SKr5.1bn ($660m) in April compared to a revised March surplus of SKr6.6bn. Industrial output fell 2.6 per cent in April from March and was up 5.8 per cent from a year earlier.

Turkish premier resigns

By Kelly Couturier in Ankara

Mr Necmettin Erbakan, Turkey's first Islamist prime minister, resigned yesterday as part of a strategy to keep his ruling coalition afloat amid a concerted campaign by the military-led secular establishment to sink it.

Mr Erbakan's resignation, tendered to President Suleyman Demirel, sets in motion a plan by the government partners under which Mrs Tansu Çiller, leader of the conservative secular True Path party, will take over the premiership, reconstitute the coalition and work toward elections next autumn.

"After reviewing the situation, we have decided to take this step in order to continue our coalition more successfully," Mr Erbakan declared after resigning. The plan, which faces several obstacles, was devised by the faltering year-old coalition to ease mounting pressure from the military, which accuses Mr Erbakan's Welfare party of encouraging a subversive Islamic movement that endangers Turkey's 20th-century secular tradition.

Analysts said the scheme was unlikely to appease the general staff, which has made it clear it wants Mr Erbakan and Mrs Çiller to step down, not merely swap jobs. In its harshest warning yet to the government, military officials said last week that the army, which considers itself the guardian of Turkish secularism, was prepared to use force if necessary to counter radical Islam.

Both President Demirel and parliament must approve the Çiller-Erbakan plan, and neither is certain to do so. Mr Demirel, formally charged with appointing a prime minister, has even hinted he may not name Mrs Çiller.

Mrs Çiller's True Path has suffered a wave of defections amid the crisis with the military, leaving it with only 116 seats. Mr Erbakan said he had handed to the president a declaration signed by three parties, Welfare, True Path and the small rigbt-wing Grand Unity party, in support of a Welfare-True Path alliance led by Mrs Çiller.

Mr Demirel, in turn, said be would do his best to appoint a new prime minister-designate as soon as possible, Mr Erbakan said.

The crisis leading to Mr Erbakan's resignation began last March, when the military-dominated National Security Council issued directives aimed at thwarting radical Islamic activity.

Mr Erbakan, who had already angered the military by pushing an Islamic-oriented agenda and making overtures to Iran and Libya, resisted implementing the measures, many of which would alienate him from his supporters.

His defiance of the military increased tension and fuelled speculation that the armed forces, which have assumed power three times since 1960, were preparing yet another takeover.

Albanian Socialist party leader Fatos Nano speaks to supporters at a rally in the south-western town of Patos. Elections will be held in Albania on June 29 Reuter

Foreign demand lifts Germany

Tbe German economy resumed its growth trend early in 1997, but it is too early to say whether domestic demand is developing strongly enough to matcb demand from abroad, the Bundesbank said yesterday, Andrew Fisher reports from Frankfurt. So far, it said in its monthly report, foreign demand had been the main support for economic recovery. German exporters had been belped by their own product competitiveness and rationalisation efforts, as well as by the decline in the D-Mark.

The central bank said gross domestic product had risen half a percentage point in the first quarter against the previous three months oo a seasonally and calendar-adjusted basis. Tbis appeared modest but had to be seen against the impact of tbe cold winter on the building industry. Manufacturing and services activity picked up sharply.

New domestic orders showed a marked improvement in March and April after a slow start. But it was not clear whether domestic economic impolses were developing as strongly as those on the export side. The bank repeated its call to politicians for greater efforts to deal with bigb taxes, social security costs, and bureaucratic hurdles. It also said the drive to control public sector spending must be intensified.

Italian pension cut talks begin

By Robert Graham in Rome

Italy's centre-left governmant yesterday initiated a crucial round of talks with trade unions and employers on cuts in tbe country's costly state-run pensions system.

The talks involving leaders of 31 different organisations amounted to a formal statement of the government's position, while establishing an agenda for tbe negotiations, wbich could drag on into the autumn.

The government is committed to curbing the rising trend in pensions outlays to hold the public sector deficit down to the targets agreed in the Maastricht treaty. But it faces stroog opposition from the powerful unions, as well as from elements on the left supporting the governmeot in parliament.

At the end of last montb the government unveiled a tbree-year macroeconomic programme to cut the budget deficit to 2.8 per cent of GDP in 1998. This was predicated on a budget that produced L15,000bn ($8.9bn) in spending cuts and L10,000bn in new receipts. The government yesterday indicated it wanted to save L6,000bn-L7,000bn in pension reform.

Matters have since been complicated by the victory of the left in France, a development which means the government is unlikely to seek an open confrontation with the unions.

Cabinet backs overhaul of pension system

By Ralph Atkins in Bonn

Germany's cabinet pushed structural economic reform forward yesterday by approving plans to overhaul the state pension system and make 1.8m civil servants contribute for the first time to their retirement benefits.

The changes, which are less ambitious than some members of Chancellor Helmut Kohl's centre-right coalition wanted, seek to tackle problems created by high non-wage labour costs, a rapidly ageing population and acute pressure on federal finances.

The federal labour ministry said pension levels would fall from 70 per cent of average earnings to 64 per cent by 2030. But contributions paid by employees and employers would remain below 20 per cent of wages until 2020, as opposed to a forecast 23 per cent if the system were unchanged.

However, a cabinet decision on how to finance an extra DM15bn ($8.6bn) in annual costs, which will fall on federal finances from 1999 as a result of the pension changes, has been postponed until agreement is reached on how to reform the tax system.

The tax talks have become embroiled in frantic negotiations over filling gaps of DM20bn-DM30bn in federal budgets for 1997 and 1998.

Coalition leaders yesterday continued work on measures to plug the budget shortfalls – and ensure Germany meets Maastricht treaty entry criteria for the single European currency – through an accelerated privatisation programme, government spending cuts and possibly higher borrowing.

Mr Theo Waigel, finance minister, will meet Mr Hans Tietmeyer, Bundesbank president, today to discuss plans to revalue gold and currency reserves and remit the proceeds to a government account in Bonn.

The cabinet has a good chance of securing early approval for its pension plans because they do not need support from the Bundesrat, the second chamber of parliament, which is dominated by the opposition Social Democratic party. The SPD is against the curbs on pension benefits and signalled its intention to focus on the issue in federal elections expected in autumn 1998.

As well as controlling contributions and benefits levels, the pension reforms include measures to encourage corporate pension schemes and tighten eligibility rules for those pensioned off because they are incapable of work. Provisions for those who take time off work to bring up children would be improved.

Meanwhile, Mr Manfred Kanther, interior minister, announced cabinet-approved plans to tackle generous civil servants' benefits. From 2001, they would receive wage increases 0.2 percentage points lower than other public sector workers. The difference would finance a pension fund expected to be worth DM66bn by 2015.

Nova Hut steel sale faltering

By Vincent Boland in Prague

A planned international offering of a stake in a Czech steel company has fallen victim to the country's economic and currency troubles and is almost certain to be cancelled.

The sale of 18 per cent of Nova Hut to foreign equity investors was due to take place in the next few weeks. But lack of demand for Czech equities has forced the investment banks bandling the issue to think again about how to proceed.

"We do not believe this is a feasible way to go forward in view of current market conditions. For an equity offering from the Czech Republic, the risks are viewed for the time being as too high," said Ms Petra Wendelová, vice president of Credit Suisse First Boston in Prague, which was bandling tbe sale with Komercni Banka.

Other options for selling the stake are now being considered with the Czech state holding company, which is Nova Hut's majority owner. Reducing state ownership below 50 per cent, which the offaring would have achieved, is a precondition for participation by the International Finance Corporation in a $250m loan to the company to build a new mini-mill.

The mill and the equity sale are the centrepieces of a five-year, $650m modernisation drive at Nova Hut. The mill will allow it to expand production of sbeet metal from 700,000 tons to 1m tons annually.

Mr Vikas Thapar, bead of European operations for the IFC, the private-sector arm of the World Bank, said a reduction of the state's stake was essential but did not have to be achieved immediately.

"We are flexible if there is a clear commitment to privatise – which there is in the case of Nova Hut," he said.

Ms Wendelová declined to comment on what options were being considered to sell the stake, but she did not rula out a sale to domestic investors or to a strategic partner.

There could also be a revival of proposals to merge Nova Hut with Vitkovice, another steel company. They are located just 5km from aach other in the eastern city of Ostrava.

NEWS: ASIA-PACIFIC

Indian amnesty for tax evaders

By Khozem Merchant in New Delhi

The Indian tax authorities yesterday unveiled an ambitious amnesty for tax evaders in a move designed to raise revenue from the black economy.

The move was welcomed by businessmen, but critics warned that while the initiative was attractive it could flop because it was not backed by sufficient penalties for tax dodgers.

The announcement marks a further development in the tax restructuring announced by Mr P. Chidambaram, finance minister, in his widely applauded hudget in March. Personal taxes were cut to 30 per cent, the lowest level ever, and corporate taxes reduced in an attempt to widen the tax base and boost revenues from the parallel economy, which is equal to 7-10 per cent of gross domestic product.

Under the Voluntary Disclosure Income Scheme 97 (VDIS), which will run from July 1 for six months, individuals who disclose undeclared assets such as homes, jewellery and cash will incur a 30 per cent tax for "legitimising their black assets", and companies will pay 35 per cent. Declared assets would then be subject to normal taxes such as the annual 1 per cent "wealth tax".

No penalty, surcharge or interest will be imposed for ths period of concealment and respondents would be immune from legal proceedings.

This could have far-reaching political implications if individuals suspected of foreign exchange violations escape further inquiry after declaring their black assets. "People under investigation under the Foreign Exchange Regulation Act could avail themselves of VDIS," said Mr A.K. Batabyal of the Central Board of Direct Taxes.

Some of India's top politicians and corporate figures are being investigated after a wave of high-profile foreign exchange and tax scandals and could, theoretically, escape censure. They includs Mr Manu Chhabria, chairman of the Calcutta-based trading group Shaw Wallace.

However, Mr Ravi Kant, tax board chairman, said that those already charged or detained for exchange violations would be not be entitled to use the VDIS provisions. Several senior officials of ITC tobacco group in Calcutta, including Its former chairman, Mr K.L. Chugh, have been detained under forex investigations.

Mr Kant indicated tax officials would curb their investigations for the period of the six-month amnesty.

"If they are going to stop investigating, then the ramifications could be widespread," said Mr Mahesh Vyas, executive director of the Centre for Monitoring Indian Economy, an independent think tank in Bombay.

Mr Kant said the current low tax environment was a compelling reason for people to come clean.

He declined to say how much the tax board was looking to raise but said the amount should exceed the sum raised in a similar exercise in 1985, when the personal tax rate was 60 per cent.

Hosokawa leaves New Frontier party

By William Dawkins in Tokyo

Mr Morihiro Hosokawa, the former Japanese prime minister who led the first non-Liberal Democratic party government in almost four decades, yesterday resigned from Japan's main opposition group.

His departure is a serious hlow to the depleted New Frontier party, an advocate of economic deregulation. It could hasten the long rumoured resignation of 20 Hosokawa followers, known to be unhappy with the NFP leader, Mr Ichiro Ozawa.

"Now there is no reason for them to stick together," said a political analyst yesterday. Mr Hosokawa's followers are likely to join the second largest opposition group, the liberal-minded Democratic party, which would then become a strong rival to the NFP as the focus of the Japanese opposition.

Mr Hosokawa, prime minister for eight months until April 1994, told colleagues he could work better for reform as an independent. But the real reason for his move is disagreement with Mr Ozawa's plans to seek case-hy-case parliamentary co-operation with the ruling LDP.

Mr Ozawa yesterday put a brave face on the loss. "It's only one individual," he said.

Hosokawa: popular PM

This brings to 31 the number of members of the lower house of parliament – the main chamber – to have left the NFP, mainly because of disagreements with Mr Ozawa, since the party was formed in late 1994. It now has 139 seats in the 500-seat lower house, against the LDP's 245.

Mr Hosokawa is one of the opposition's best known members and was Japan's most popular prime minister on record before he stepped down from the leadership because of allegations of personal financial impropriety.

Other high-profile departures from the NFP include Mr Tsutomu Hata, another former prime minister, who left to form his own group, the Sun party, last December, also after a disagreement with Mr Ozawa. Now the NFP now has just one former leader in its ranks, the uncharismatic Mr Toshiki Kaifu.

The NFP remains the biggest new Japanese political party since the LDP's creation in 1955. It was formed from an alliance of parties grouped around a core of disillusioned former LDP men led by Mr Ozawa, whose defection from the LDP four years ago precipitated its temporary downfall.

Initially, the NFP created much excitement in Japan and abroad with its pledges to hreak the power of LDP factions and make government more responsive to the aspirations of the slectorate. But since then, the NFP's popularity has declined. It has found it hard to differentiate itself from the ruling party, which has occupied the opposition's territory hy becoming an enthusiastic advocate of deregulation.

Bank urges Jakarta to avoid slowdown

By Manuela Saragosa in Jakarta

Indonesis risks a significant slowdown in economic growth and worsening problems of wealth distribution unless the government moves to restore momentum to its deregulation programme, the World Bank has warned.

In its 1997 report, "Indonesia: Sustaining High Growth with Equity", the bank said that Indonesia's economic performance had been strong, but "significant risks" remained.

The bank's warning followed a year which saw an unprecedented number of riots and unrest across the archipelago, sparked in many cases hy a perceived growth in disparity between the country's rich and poor.

A slowdown in the deregulation programme meant there was a danger of per capita income increasing by about 20 per cent less than expected by the year 2005, with economic growth slipping to 5 per cent per annum from 7.8 per cent last year.

Lower gross domestic product would mean "significantly fewer resources to sddress social issues," but would also he disappointing because Indonesia could become one of the "world's 20 largest economies" if growth continued to everage 7.5 per cent until 2005.

Domestic over-regulation continued to stifle growth, the hank argued, with lack of transparency and competition hurting performance in sectors such as infrastructure and natural resource development. Strong deregulation that had supported rapid, labour-based growth had slowed and even reversed in some areas, with little progress made on the unfinished deregulation agenda.

Meanwhile the country's overcrowded hanking sector remained "relatively weak" hy international standards and its exposure to the property sector was "again on the rise".

Indonesia's financial institutions needed strengthening because there was continuing concern that the financial system would not be able to "sct as an adequate shock sbsorber" in the event of some mscro-sconomic disruption, the bank said.

This had taken on added urgency because Indonesia's current account deficit was "likely to worsen further next year", partly because of a slowdown in non-oil export growth. The risk was "magnified hy Indonesia's large external debt" and the increasing sensitivity of global flows to changes in economic indicators, the report warned.

Chinese Maj Gen Zhou Borong waves as he leaves Hong Kong's customs and excise training school. Hong Kong legislators yesterday demanded information about reports that Gen Zhou had criticised customs officials for stopping him at the border, John Ridding writes. The row is the first dispute over the presence of the People's Liberation Army in the territory, which returns to Chinese sovereignty at the end of the month. Local press reports say Gen Zhou told customs officials that they should show more respect after they asked to see his papers during a border crossing last month. China at the Gateway, Page 11 Reuter

Manila SEC refutes share fixing charges

By Justin Marozzi in Manila

The Philippine Securities and Exchange Commissioo (SEC) has taken ths unusual step of repudiating accusations made in two leaked internal reports that foreign broking houses conspired to manipulate share prices.

The denial comes amid growing concern in the financial community that the SEC's ineffectiveness as market watchdog was reducing the standing of the Manila market.

The leaked reports constituted the preliminary findings of e probe into sharp falls in share prices of property companies earlier this year.

After prompting by one of the accused brokerages, the SEC said yesterday the initial findings of the reports were "insufficient to warrant any conclusion, let alone the involvement of certain brokers in an alleged conspiracy to manipulate". Ths probe would continue, it said.

The reports, widely quoted in the local press, said SBC Warburg and Jardine Fleming had sold shares in the Empire East property group only to buy them back after steep falls. Foreign brokers and investors had conspired to realise profits to the prejudice of the investing public, they said.

The SEC launched the investigation after extreme turbulence in shares of Empire East and Megaworld, another property group, prompted allegations some brokers had started deliberately misleading rumours about financial difficulties in the companies. In one session in April, shares in Megaworld plummeted 41 per cent and those of Empire East 30 per cent.

SBC Warburg welcomed the SEC statement. "We have stated categorically that ws have not been short-selling these securities," it said. "We do not, havs not, and will not conspire with other brokers." Jardine Fleming said it was still trying to contact the SEC.

The latest embarrassment to the SEC comes amid pressure to improve its performance amid doubts over its ability to conduct orderly investigations into market malpractics. Mr Perfecto Yasay, its chairman, was sharply criticised by members of the Philippines stock exchange recently when he was quoted as saying he favoured an end to separate listing of shares open to foreign investors. The movs caused e sell-off of such shares and complaints that SEC policy was being determined in the newspapers.

"The SEC really needs to get its act together," said one foreign banker. "The real issue is compliance and regulation. Investors are going to be increasingly wary of investing in a market where they feel there is a chance they are not getting information in a free and fair way and that there are insiders who will always know more than them."

Iacocca turns to electric 2-wheelers

By Laura Tyson in Taipei

Mr Lee Iacocca, the legendary businessman who twice pulled Chrysler, the US car giant, back from the brink of bankruptcy, is returning to the transport business with a venture to develop and market electric motorcycles and bicycles.

The 72-year-old Mr Iacocca, who left Chrysler more than four years ago, optimistically asserted that "anything would be easier" than turning around the once-failing car maker, but industry observers cautiously suggested he hed taken on a challenge that could prove insurmountable even for someone with his record.

Mr Iacocca visited Taiwan this week to forge alliances with local manufacturers to promote his vision of the future of motorised transport, saying he chose Taiwan because it was the most natural place to develop and commercialise light electric vehicles.

"If the batteries are developed enough, we can probahly go to small commuter cars, but I think that is a long way off. Bicycles and scooters are here now and I think this is the leading edge of a revolution," he said.

He met Mr Wang Yung-ching, 83-year-old founder and chairman of the Formosa Plastics group, Taiwan's biggest private industrial conglomerate. Mr Wang is spearheading efforts to develop a commercially viable electric motorcycle through ths government-hacked Asia Pacific Investment Corporation, which hs heads.

The former Chrysler chief readily conceded that battery technology was a barrier to the commercial exploitation of electric vehicles, and some observers were sceptical that Mr Iacocca and Taiwan could succeed where similar US, Japanese and European endeavours had failed.

In March Mr Iacocca formed a company called EV Global Motors to sell light electric vehicles – two-wheeled, three-wheeled and scooters – first in North America and later in Europe and Asia.

On Tuesday Mr Iacocca initialled a joint venture with Kwang Yang Motor, Taiwan's biggest scooter-maker, Taipei-based Turn Luckily Technology and Colorado-based Uniqne Mobility. EV Global will handle distribution and marketing of the light electric vehicles produced by the venture.

He also signed a joint venture agreement with Giant, Taiwan's higgest hicycle maker, to manufacture electric bikes. Both Kwang Yang and Giant have prototype battery-driven vehicles.

Taiwanese enthusiasm for motorcycling – there are nearly 9.5m motorbikes and scooters on the road – has resulting in serious pollution problems largely from two-stroke engines.

Ramos expects to take elder statesman role

By Peter Montagnon, Asia Editor

President Fidel Ramos of the Philippines said he expects to play a continuing role in national affairs as an "elder statesman" after he steps down at the end of his mandate next year.

A presidential term of six years was "long enough for me," he said during a visit to Britain, but he added that he would still have a political role to play as chairman of Lakas, the country's largest party.

His statement is a clear indication that Mr Ramos, who is credited with kick-starting the country's economy and cementing the post-Marcos democracy, hopes to retain an important behind-the-scenes role after he leaves office.

A ruling from the Supreme Court earlier this month dasbed hopes among his supporters that a constitutional way could be found for him to stand again.

Mr Ramos said he was confident his party's candidate would win ths election, but he was careful not to feed mounting speculation as to whom he would support as his successor. There were a lot of "wannabes", he said, but it was not clear who was "presidentieble".

Mr Ramos also told a press conference that a Philippine delegation would attend the controversial swearing in of the provisional legislature appointed by China to run Hong Kong after its handover, and he made an upheat forecast for the Philippines economy.

Strong activity in the first quarter – thanks to a sharp 3.3 per cant rebound in previously dsprsssed agricultural output and a 22 per cent growth in exports – meant the economy was on track to achieve a 7 per cent growth rate this year, which should accelerate to 8 per cent next.

That will fall short of the double-digit growth rate Mr Ramos once wanted to achieve during his administration, but, if next year's forecast is met, he will leave office with growth in the upper range of levels prevailing in south-east Asia.

Mr Ramos said his post-presidential role would not be an official one like that of Mr Lee Kuan Yew in Singapore, who was given a cabinet position even after he stepped down as prime minister.

But be would be involved in think-tanks, export and investment promotion and in maintaining high-level contacts abroad.

He would also take an active role in the transition by working with his successor while hs was still in office.

"The problems of ths world and of the Philippines are so complex that a newly elected president can't just take over, sit down on the presidential chair and be expected to perform efficiently," he said.

ASIA-PACIFIC NEWS DIGEST

Rival faction 'holds Pol Pot'

Pol Pot, leader of the Khmer Rouge who has been on the run from his former comrades for a week, is reported to have surrendered to them in a remote guerrilla stronghold in northern Cambodia, a senior government general said yesterday.

Gen Nhek Bunchhay, Cambodian deputy army chief of staff, said the guerrillas planned to hold Pol Pot until he could be judged by an international tribunal for his role in the genocidal regime he led between 1975 and 1979 that caused the deaths of 2m Cambodians.

Earlier, the Khmer Rouge clandestine radio claimed that Pol Pot had "confessed", although it was not clear to what, and implied that the revolutionary leader was in the custody of the faction that had turned against him.

Gen Nhek Bunchhay had flown to the rebel stronghold of Anlong Veng in northern Cambodia earlier in the day to confirm the defectioo of ebout 1,000 guerrillas holed up there with Pol Pot since the Khmer Rouge disintegrated lastyear. Those negotiations are believed to have provoked a clash in Phnom Penh on Tuesday between security forces loyal to Prince Norodom Ranariddh, the first prime minister and second prime minister Hun Sen. Mr Hun Sen warned the governing coalition might fall apart if Prince Ranariddh continued to court the guerrilla group. The prince is seen as wanting Khmer Rouge support in national elections planned for 1998. *AP, Pinom Penh and Ted Bardacke, Bangkok*

Australian convention rebuff

Plans by Australia's conservative federal government to hold a "people's convention" later this year to discuss whether the country should become a republic were rebuffed yesterday when the Senate, parliament's upper house, voted against a voluntary postal ballot to elect half the delegates.

The senate vote was extremely narrow, at 34-33 in favour of an amendment which would make the ballot compulsory. It subsequently voted in favour of further amendments requiring the government to bold an "attendance ballot" instead of a postal ballot.

The convention was promised by the government during the last election campaign, and would look at how Australia might go about cutting its constitutional ties to the British monarchy.

If a consensus emerged from the convention, a referendum would then be held, allowing Australians to vote on the issue of becoming a republic.

However, the government has announced plans to appoint half the 152 delegates to the convention, and is suggesting that the remainder be selected by a voluntary postal ballot. Legislation to implement these plans has run into strong opposition, because Australia normally insists on compulsory voting and because of fears that it will invite tampering allegations. *Nikki Tait, Sydney*

N Korea warns of 'final battle'

The North Korean military yesterday warned thet It was prepared for a "final battle" with the US and South Korea, which It accused of preparing an attack against the North weakened by food shortage. The Seoul bourse fell hy 2.4 per cent on rumours that foreign investors were selling heavily in response to the statement from Pyongyang.

"At this moment when dark clouds of war are rushing toward our motherland and fighting is about to break out, our revolutionary armed forces cannot remain an onlooker to the situation, pinning hopes on dialogue for an indefinite period," the state-run Korean Central News Agency quoted the military spokesman as saying.

Analysts regarded the military statement as a warning that US and the South Korea should not take advantage of the food shortage to launch an attack, which has become a main worry in Pyongyang recently. The statement underscored concerns to the Seoul that North Korea might launch a pre-emptive strike if it felt its security was threatened because of the food shortage. *John Burton, Seoul*

Indian politician digs in

Mr Laloo Prasad Yadav, embattled leader of prime minister I.K. Gujral's Janata Dal party and chief minister of Bihar state, yesterday refused to stand down after police were given the go-ahead to charge him in a $280m animal fodder scandal.

He said Mr A.K. Kidwai, New Delhi-appointed governor of Bihar who on Monday gave the Central Bureao of Investigation the green light to prosecute, had been misled by investigators. Mr Kidwai told the CBI they could also charge two Bihari state ministers.

The development makes Mr Yadav's position increasingly untenable. Yesterday senior members of the 15-member United Front coalition of which the Janata Dal is the largest member, said Mr Yadav should consider his position as chief minister. Congress, the government's main parliamentary ally, also joined calls for his resignation as chief minister. Mr Yadav, who is locked in e bitter Janata Dal leadership contest scheduled for later this month, would be tha first sitting chief minister to be prosecuted. *Khozem Merchant, New Delhi*

NEWS: INTERNATIONAL

Netanyahu accused of setting a trap to prompt Meridor's resignation as finance minister

Israeli power struggle draws cabinet blood

By Judy Dempsey in Jerusalem

When Israel's cabinet meets tomorrow, the minister most conspicuous by his absence will be Mr Dan Meridor, who quit as finance minister early yesterday.

Mr Meridor resigned not because he disagreed fundamentally with the Bank of Israel's decision to alter Israel's exchange rate mechanism – but rather, as he asserted, because he could no longer continue in the government headed by Mr Benjamin Netanyahu.

He believed, too, that Mr Netanyahu had "ulterior motives" in convening a cabinet session late on Tuesday to debate monetary policy.

For Mr Netanyahu, the timing of that meeting was impeccable as five ministers were absent. They included Mr Yitzhak Mordechai, the defence minister, who was in the US and Mrs Limor Livnat, communications minister, who was in the Philippines. Both are at loggerheads with Mr Netanyahu over his conduct of policy.

He refused a plea by Mrs Livnat to postpone the cabinet meeting until tomorrow, when she would be back in the country. "He knew she would try to support Meridor," one finance ministry official said.

"It was a great victory for Netanyahu," said Mr Efraim Inbar, political scientist and director of the Begin-Sadat Centre for Strategic Studies at Bar-Ilan University. "He got rid of Meridor, his opponent. He never wanted him in the first place as finance minister. The Likud party will be pleased by that."

Likud members tended to regard Mr Meridor, a fellow-member of the group and a former justice minister, as a "dove" on the peace process, while religious parties in the coalition saw him as too secular. Other groups opposed his cuts of Shk7.2bn ($2.1bn) in this year's budget aimed at bringing the deficit down from 4 per cent of gross domestic product to 2.8 per cent by the end of the year.

"Netanyahu manoeuvred his way into getting rid of Meridor," said Mr Inbar. "Meridor fell into the trap and is now out. He has no political base left."

But the victory may turn out to be a Pyrrhic one.

While many Israelis still cannot fathom the intricacies of the currency debate, Mr Netanyahu is now saddled with two problems and their outcome could determine not only the future of fiscal policy, but also the stability of the government.

On fiscal policy, whoever succeeds Mr Meridor will almost certainly be beholden to the many interest groups in the coalition. The religious parties will demand more funds for the *yeshivot*, the religious seminaries. The nationalist parties will demand more money for settlements and the lobby around Gesher, led by Mr David Levy, the foreign minister, will demand more spending on development towns.

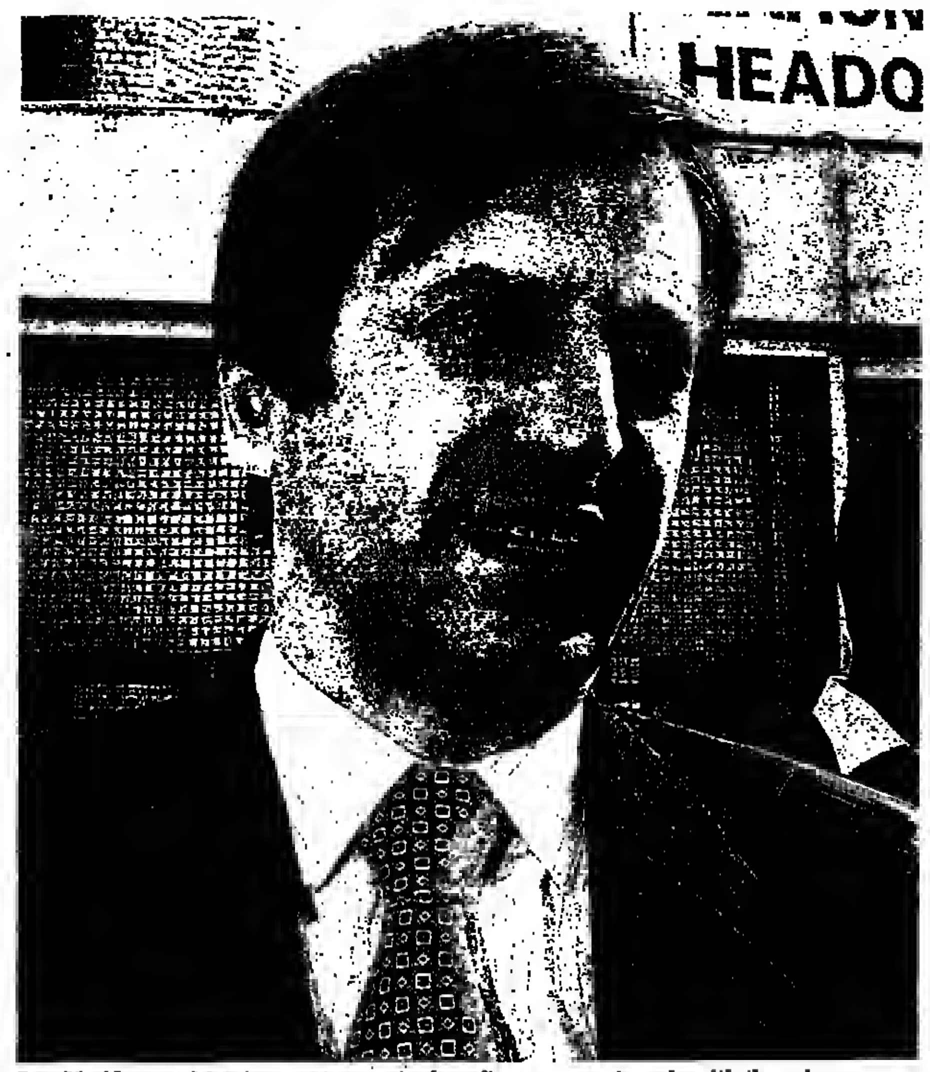
"Fiscal policy could be clearly undermined," said Mr Gad Haker, international department head at Ilanot-Batucha Investments. "Whoever succeeds Meridor needs the support of Netanyahu and the Bank of Israel, and must, be strong enough to stand up to all the different interest groups."

He added that the Bank of Israel – which lowered interest rates by 1.2 percentage points yesterday to 12.7 per cent on daily commercial loans – could be forced to raise them again if fiscal policy is undermined.

This could have the effect of attracting more foreign funds to take advantage of high interest rates. But it would also increase the money supply, put pressure on inflation and force the Bank of Israel to intervene.

The other problem facing Mr Netanyahu is his style of government. Mr Natan Sharansky, head of Yisrael Ba'Aliya, the Russian immigrant party, and Mr Avigdor Kahalani, head of the Third Way, are highly critical of Mr Netanyahu's insistence on marginalising dissent and opposition.

Since these parties hold the balance of power, the government remains far from stable, although Mr Sharansky is embroiled in corruption allegations that could weaken his bargaining position.



Dan Meridor speaking to reporters yesterday after a power struggle with the prime minister led him to resign AP

Iraqi traders visit arch-foe Syria

A group of Iraqi businessmen headed back to Baghdad yesterday after a ground-breaking visit to Syria, AFP reports from Damascus.

The delegation, made up of representatives of the official Iraqi Chambers of Commerce, was escorted to a border crossing point by Rateb Shallah, head of the Syrian Union of Chambers of Commerce, the official Syrian news agency SANA reported.

The five-day visit was the first to Syria by a group of Iraqi businessmen since the two countries severed ties 17 years ago at the start of the Iraq-Iran war, when Damascus backed Tehran.

Syria and Iraq are led by rival factions of the Baath Party.

Last month a Syrian delegation travelled to Baghdad to break the ice and begin talks on resuming trade. The Iraqi-Syrian border, closed in 1982, has also been reopened for businessmen and industrialists.

The two countries have since signed contracts for the first time since 1980, and Syria has suggested that its territory might be used as a transit point for goods destined for Iraq.

Mr Zuheir Abdel Ghafur Yunes, head of the Iraqi delegation, told SANA: "We hope this visit will be followed by others in order to step up economic and commercial relations in the interests of both countries."

During the visit, the Iraqi delegation toured several Syrian cities, commercial and industrial sites and met a number of high-ranking Syrian officials, including the trade, transportation and health ministers.

Tractebel snatches Kazakh gas pipeline contract

By Charles Clover in Almaty, Kazakhstan

Tractebel of Belgium has won a contract to manage Kazakhstan's natural gas pipeline network for 15 years. The deal, announced this week, surprised observers as it had been thought that Bridas, the Argentine oil company, was negotiating exclusively with the Kazakh government.

Bridas may have lost because of a conflict of interest with its role in Turkmenistan. Bridas is locked in several disputes with the Turkmen government over oil and gas properties, and there were suggestions that it might have been able to use the Kazakh gas pipeline system to hamper Turkmen gas exports, all of which pass through Kazakhstan.

It was Tractebel came along a few weeks ago, however, Bridas had been the only company willing to take on the entire Kazakh gas grid, including the Alaugas company which transports gas from Uzbekistan to utilities in south-eastern Kazakhstan.

Most of the utilities supplied by Alaugas are insolvent, and the company may be heavily in debt. Enron and Gaz de France, for example, had jointly submitted a bid for Kazakgas, the western half of the pipeline system which transports gas from Uzbekistan and Turkmenistan to Russia, for an 18 per cent fee.

Talks between Tractebel and the Kazakh government began several weeks ago. Tractebel was willing to take on Alaugas probably because the Belgian company also operates Almaty Power Consolidated, which is Alaugas' main customer.

Under the terms of the contract, Tractebel will control the natural gas pipeline network for 15 years, with a possible five-year extension. The company will pay the government a $30m bonus, as well as a 2 per cent royalty on overall gas volume and 40 per cent of net profits. The government's share of earnings is subject to review every five years.

Tractebel has pledged $600m in investment for repair, construction, and planning costs. It will also provide nearly $100m to build a pipeline in southern Kazakhstan to bypass Kyrgyzstan.

The agreement accompanies a flurry of activity in the privatisation of Kazakhstan's utilities. Two weeks ago, a consortium of the Swiss/Swedish engineering group Asea Brown Boveri and the East German company Veag, which in April had signed a concession to operate Kazakhstan's high-voltage electric grid, lost their contract over unspecified differences with the Kazakh government.

South Korea's Daewoo, meanwhile, was recently awarded a 40 per cent stake in Kazakhstan's telecommunications monopoly Kazakhtelecom after negotiations with Deutsche Telekom fell through last January.

ABB is primarily a manufacturer of electrical generating equipment, and the Kazakh government may have feared that it would use its position as grid operator to monopolise the building of power stations in Kazakhstan. ABB already has one power project in the building stage and many more on the drawing boards.

NEWS: WORLD TRADE

S Korean campaign upsets Europeans

By John Burton in Seoul

European companies in South Korea are complaining of government harassment, despite a recent promise by Seoul not to discriminate against imports in its "frugality" campaign to reduce the country's current account deficit.

Korea made the pledge last month in an effort to avoid a threatened complaint to the World Trade Organisation by the European Union over the impact of the "frugality" campaign on imports.

"We greeted the statement with optimism. We thought the government harassment would stop. But it hasn't," said Mr Gerhard Pils, head of the automotive committee for the EU Chamber of Commerce in Korea.

Reports that the government will conduct tax audits of Korean consumers of luxury goods, including cars, have revived European importers' worries. The US and the EU have previously alleged that such audits have discouraged purchase of foreign goods.

"The government is creating a social bias against foreign products. Can any Korean buy a foreign car when he knows he is liable to a tax audit?" asked Mr Pils, who is executive vice-president of BMW Korea.

European cosmetic companies also claim that officials have become "very aggressive" in conducting audits and applying new regulations. "Regulatory harassment, with audits and investigations, has recently intensified," said Mr Martin Guillou, who heads the cosmetics committee at the EU Chamber of Commerce. "The climate of doing business in Korea for importers of cosmetics is rapidly deteriorating."

Despite the new complaints, some EU officials in Seoul believe that conditions for foreign companies will soon improve. "Once the economy improves, the frugality campaign will go out the window," said one.

R-R clinches $700m Gulfstream deal

By Ross Tieman in London and Jonathan Wheatley in São Paulo

Rolls-Royce, the aero-engine maker, yesterday said it had secured a $700m order to supply Tay engines to power Gulfstream IV corporate jets.

The engines will be used to equip Gulfstream jets delivered up to the year 2003, the engine maker said.

Rolls, based at Derby in the UK, has already delivered more than 600 Tay engines to Gulfstream.

The contract will provide a welcome lift to the Tay programme, which lost a key customer when Fokker, the Netherlands regional aircraft maker, halted production. Both the Fokker 70 and the Fokker 100 regional jets were powered by Tays.

Mr John Cheffins, managing director of Rolls-Royce Commercial Engines, said: "This order secures a long-term future for the Tay and GIV." The engine had also been chosen to re-equip Fokker 28 jets already in operation, he added.

The Gulfstream deal, unveiled at the Paris Air Show, brings the total value of contracts announced by Rolls since the show began last week to $1.3bn.

It was accompanied by news that Continental Express, the US airline, is to exercise options on 25 Brazilian-built Embraer EMB-145 regional airliners for $375m.

The twin-jet aircraft will be powered by engines from Rolls' US subsidiary, Allison.

The deal follows a contract signed last September setting firm orders for 25 EMB-145s and options to buy a further 175.

It comes a day after Embraer announced a deal worth between $670m and $1bn with American Eagle, the regional unit of American Airlines, for firm orders for 42 EMB-145s and 25 options.

It brings Embraer's firm orders for the narrow-bodied jet to 132, with options for a further 194.

Embraer will complete delivery of Continental Express's original order during the first quarter of next year and begin delivering the next 25 EMB-145s in the second quarter.

The two contracts are set to return Embraer to the black this year after seven years of losses and confirm the success of an efficiency drive begun after its privatisation in 1994.

Rolls-Royce announced that its Trent 500 engine, latest in the company's Trent family of large aero-engines, had been selected as the powerplant for a new long-range version of the four-engined Airbus A340 jetliner.

Rolls' engines have also been ordered for up to 12 new Boeing 757 jets to equip Icelandair. Both South African Airways and British Airways confirmed their choice of Rolls-Royce RB211-524 engines to power future deliveries of Boeing 747s.

Rolls has also been successful in winning repair and overhaul contracts – an area where it is trying to build up its business. Rolls-Royce Aero Engine Services said it had won $200m of contracts in 1987, including $60m of work on military and civil aircraft announced at tha show.

BAe takes a billion-dollar gamble

The UK aircraft company has thrown in its lot with Lockheed – battling Boeing for a huge fighter order

One hundred billion dollars is a lot of money, even by the standards of the defence industry. That is roughly how much the US order alone for the Joint Strike Fighter will be worth, with at least as much again being generated by sales in the international market place.

The programme is so enormous because the JSF is being designed to replace a whole swathe of aircraft, including the Lockheed F-16, which forms the backbone of the US air force, the McDonnell Douglas AV-8B jumpjet used by the US marines, the UK navy's British Aerospace Sea Harriers and the US navy's F/A-18 strike jets. The US alone will buy around 3,000 of the aircraft, and users of the F-16 worldwide are bound to be interested in tha next-generation, radar-avoiding stealth JSF.

For Lockheed and Boeing, the two US companies fighting to win the contract to produce the jet when a final decision is made in 2001, tha outcome of tha JSF competition will determine who dominates the fighter industry in the 21st century. The programme is so big it has already claimed one large corporate victim years before the first jet rolls off the production line; it was McDonnell Douglas's elimination from the competition last November which finally led the company to sue for terms and merge with Boeing.

If the programme is vital for US aerospace giants, it is equally important for British Aerospace. The British government is putting $200m into the JSF programme in the expectation that the jump jet version of the aircraft will produce a supersonic replacement for Britain's ageing Harriers.

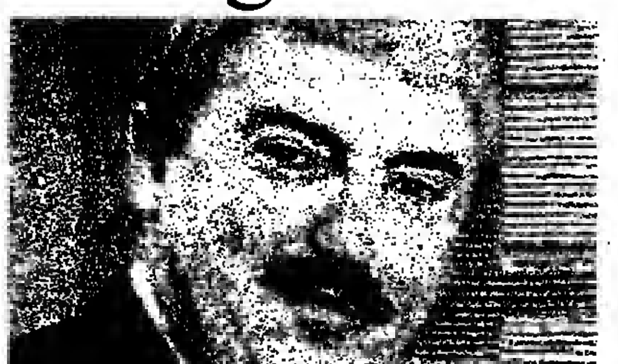
> BAe has had to tread carefully, having picked the wrong partner in the first round

Yet JSF is worth far more to BAe than the 60-80 jets which tha ministry of defence might order for the navy. Lockheed has offered BAe 12 per cent of the whole production run of the aircraft, a deal which could be worth more than £10bn ($16.3bn) to BAe in the 20-year life of the programme.

More than that, it will give BAe access to advanced US technologies and engineering processes to keep it close to the cutting edge in fighter design. Most important of all however it forms a strategic partnership between BAe and Lockheed, which could form a nucleus for a future transatlantic aerospace company.

Given the stakes, and the importance attached by the Pentagon to the presence of the UK in the programme, both Lockheed and Boeing had been pursuing BAe hard in recent months to form the kind of strategic team announced yesterday. BAe has had to tread carefully, having picked the wrong partner by backing McDonnell Douglas in the first round of the competition.

Boeing started with an advantage. Having quickly agreed a full merger with McDonnell, it offered BAe an attractive package of work on its JSF design. Given that BAe's engineers have formed close relationships with McDonnell by the co-operation on US versions of the Harrier and Hawk trainer over many years, BAe's military aircraft division was keen to support the Boeing bid.


Evans: will Lockheed alliance turn out a winner?

Lockheed was initially slower to respond, and made BAe an offer which gave it production work for its factories, but a less enticing package of high technology development work. However, as negotiations progressed over tha spring, Lockheed was forced to match the terms offered by Boeing.

In choosing between the two bids, Sir Richard Evans, BAe's chief executive, was looking for a strategic deal which would leave him well placed with technology and in the right place to seal a transatlantic defence merger if it became a possibility in the future.

He also had to balance internal concerns. While his military colleagues favoured Boeing, his civil airliner operations, part of the Airbus consortium, was worried at the potential reaction of BAa's continental partners to a deal with their bitter rival. Eventually, the possibility that a future combined European defence and aerospace company, formed from the Airbus partners, could form an alliance with the largely military Lockheed to rival Boeing in the world market, was the deciding factor.

One consideration remains however. Sir Richard and his colleagues cannot yet be certain that they have picked the winning aircraft. Having sounded confident about their previous alliance with McDonnell and then badly beaten, they cannot afford a second mistake.

Bernard Gray

WORLD TRADE NEWS DIGEST

Caracas seeks compensation

Venezuela is seeking compensation from the US, following a ruling by the World Trade Organisation (WTO), that it had incurred losses as a result of discrimination against its petrol exports. Mr Luis Giusti, president of Petroleos de Venezuela (PDVSA), said the state-owned petrol company, said he was not sure of the exact amount of the claim, but indicated there was "an opportunity cost of about $50m. "We will have to wait for the politicians to resolve it," be added.

The WTO last year ruled in favour of Venezuela and Brazil after they complained that strict US environmental regulations were benefiting domestic producers of petrol. In response, the US promised to modify its laws by August 20 this year. Venezuela is the principal supplier of oil to the US. *Raymond Colitt, Caracas*

Music industry lobbies MEPs

Record executives yesterday met members of the European Parliament's culture committee in Brussels to discuss the future of the music industry in Europe. Stepping up the industry's battle against music piracy was on the agenda, along with the need to extend copyright protection legislation to cover digital distribution of music on the Internet and other online services. The music industry also pressed for the value-added tax on recorded music to be reduced in line with that on other cultural products.

The meeting forms part of the music industry's attempts to secure stronger political support within the European Union. In the US, the Clinton administration regularly lobbies on the music industry's behalf in international trade talks. European record executives have long complained they do not receive the same level of support. *Alice Rawsthorn, London*

Carmaker seeks hotel partner

Chinese Automobile, a Taiwanese car manufacturer, is seeking foreign partners to build a T$10bn ($358m) international-class resort complex in northern Taiwan. The company is courting international chains such as Hilton Hotels to manage the resort in Taoyuan County.

The Taiwan government recently announced plans to begin phasing in a five-day working week in 1998, a move expected to increase demand for vacation resorts and boost the leisure industry.

Most people in Taiwan now work a six-day week, including a full or half-day Saturday. Construction of a theme park, club and hotel is to begin next year for a planned opening in 2002. Executives said Chinese Automobile was trying to diversify beyond its car and construction businesses. The company is part of Hofeng, a business group. *Laura Tyson, Taipei*

Greeks in $185m ships deal

Latsis, the London-based Greek shipping and oil refining group, has ordered six product carriers from Korea's Hyundai shipyards under a long-term fleet renewal plan. The fleet renewal is part of a group restructuring aimed at strengthening its shipping activities. Bilinder Marine, the group's shipping arm, will take delivery from 1999 of the 45,000-tonne carriers. The cost is reported to be about $185m, to be financed through bank loans. The ships mark Latsis' entry to the products market as a carrier for other oil companies. *Kerin Hope, Athens*

Republican row gives Clinton tax advantage

By Bruce Clark in Washington

Squabbling among members of the Republican majority in Congress is compromising their ability to mount a coherent challenge to President Bill Clinton over how exactly a $85bn tax-cutting package should be put into practice.

The latest Republican proposal, announced this week by the Senate finance committee, has earned fresh rebukes from the administration on grounds that it places too much emphasis on tax relief for the rich.

But the Senate's package appears to be somewhat more palatable to Mr Clinton and his Democratic party than its House counterpart, on which a full vote is expected next week.

Both the House and Senate bills would reduce the top rate of capital gains tax for individuals from 28 to 20 per cent. But the version proposed by Senator William Roth, Senate finance committee chairman, would not allow indexing for inflation or reduce the corporate rate.

While both bills offer families a tax credit of $500 per child up to the age of 17, the Roth bill would require parents of teenagers to put the proceeds of this tax break into an educational savings account.

This feature of the bill has been deplored by conservative, pro-family lobby groups who argue that it offers no help with current expenses to the families of 11m teenagers.

Administration officials said Mr Roth's proposal had taken account of some of their criticism of the tax bill drafted by Mr Bill Archer, who heads the tax-writing committee in the House.

In another development which could turn to the White House's advantage, Republicans in the House are absorbed by an unexpectedly fierce round of internal bickering. Mr Dick Armey, House majority leader, unleashed a wave of speculation by agreeing to host a meeting of party rebels in his office – and refusing to answer whether he supported the leadership of Mr Newt Gingrich, the House speaker.

The implicit challenge by Mr Armey, who would be next in line for the speaker's job, follows ferment within the party over a botched Republican attempt to tie extraneous amendments to a disaster relief bill signed by Mr Clinton last week.

Mr Clinton forced his opponents to withdraw the amendments after vetoing their initial version of the bill.

Mr Armey's challenge has given encouragement to a group of conservative legislators who complain that Mr Bob Livingston, chairman of the house appropriations committee, is trying to punish them for their dissident stance by witholding money from their districts.

Banking law attracts criticism

By John Authers in New York

Doubts persist about a wide reworking of US banking law even though a merging of the worlds of US banking and commerce edged closer this week.

On Tuesday, the House Banking Committee voted 35-19 to allow banks to buy non-financial companies – a key change to laws originally passed in the 1930s which barred commercial banks even from entering the securities or insurance businesses.

The measure would not let banks derive more than 15 per cent of their turnover from commercial investments. They would also be prohibited from affiliating with companies with assets of $750m or more, thus, in effect, exempting more than 1,000 of the nation's largest companies.

But the provision on merging banking and commerce is widely considered the most important and contentious issue in the field of financial services reform, and the measure was only passed after strongly worded debate.

The majority Republicans are split over the issue. Ms Marge Roukema, Republican congresswoman who chairs the sub-committee on financial institutions and consumer credit, is a strong proponent. Mr James Leach, banking committee chairman, is opposed and says there is no economic rationale for the measure.

Some Democrats also oppose it, including Mr Henry Gonzalez of Texas, who said it could create "risks that we don't understand and cannot foresee". He added: "It is very much like assuming thet a nuclear power plant really doesn't need all that safety gear."

Moreover, few banking organisations are lobbying for the reform, which is opposed by some significant Wall Street figures.

'Little fellow in Texas' has eye on dad's old job in Washington

George Bush Jr is being seen as a presidential candidate, writes Gerard Baker

Governor George Bush does not look like a man who has just suffered the first real setback in his short but highly promising political career.

The son of the former president, governor of Texas, the second largest US state, Mr Bush is now one of the most powerful figures in the Republican party establishment.

But two weeks ago, the Texas legislature dealt a blow to Mr Bush's rolling programme of radical reform which has turned Texas into an experimental test-bed for some of the most significant changes in social policy in the country.

Legislators rejected his plan for a radical overhaul of the state's tax system, a proposal that would have slashed property taxes by $4bn in exchange for a steep increase in sales tax and a new tax on professionals' income – all aimed at putting the state education system on a more stable financial footing.

Mr Bush had said he would spend every dime of his political capital to secure the plan's approval. But contemplating his defeat, he is as bullish as ever about the outlook for the reform strategy.

"Guess what happens when you spend capital," he says. "You earn capital. And although I don't live and die by opinion polls, in the middle of this big fight, my numbers were never stronger."

Mr Bush is being somewhat disingenuous.

He watches his numbers like a hawk, and he knows that the remarkable success so far of his legislative programme and a strong personal appeal make him, at this admittedly early stage, the favourite among voters to be the Republican party's next presidential candidate.

Though he routinely says he has made no decision on whether he will be a candidate for president in 2000, he is obviously pleased with the splash he has made.

"Here I am, just a little fellow in Texas trying to do my job, and every poll I see raises my lead. And I'm not even trying."

The setback on tax reform is in fact being worked energetically to his advantage, enhancing the governor's reputation as a man who had the courage to tackle a Gordian knot – the school financing system in Texas is chaotic – but who was defeated by a combination of special interests and inertia in the state house. And he even managed to engineer a $1bn property tax cut out of the mess.

The governor's dynamic programme of reforms in his two and a half years has been the principal reason why he has attracted so much attention as a potential presidential candidate. With Republicans in Washington in disarray over how much further to press their conservative agenda, Mr Bush seems to have discovered a magic formula that combines an assuredly anti-statist approach with a human touch.

The Bush strategy has been a populist brand of modern conservatism, but without the hard edges and slightly wacko quality of some of his colleagues in the Republican party.

He has taken a noticeably softer line than many of his colleagues, on the thorny issues of race and immigration, for example.

"Government should do a few things and do them well. Why are people so cynical about government? Because they've been promised so much for so long by government that it will solve their problems when in fact it's impossible for it to do so," he says.

> The governor brushes aside a setback in his reform drive. 'You earn political capital. Although I don't live and die by opinion polls, in the middle of this big fight the numbers were never stronger.'

Yet Mr Bush has perhaps done more than any other governor in the US to attempt to take the government out of traditional areas of administration.

Nothing illustrates the radicalism better than his welfare reform legislation, which aimed to privatise much of the state's provision of assistance to the neediest.

The Bush proposal was for a form of what he calls "one-stop shopping".

Private companies were permitted to administer a range of social services under one roof – welfare, medical insurance for the poorest, food assistance.

The idea, he says, was to get the poor off a culture of welfare dependency and into immediate contact with the private sector.

"Under our planned system, the first words out of the mouth of the person whose job it is to help is 'What can I do to help you avoid dependency on government?'".

Companies, Mr Bush claims, are much more likely to encourage people off welfare dependency than governments.

The Clinton administration, alarmed at the wholesale privatisation of welfare the Texas plan seemed to involve, told Mr Bush it would not allow the programme to go ahead.

Undaunted, Mr Bush last week signed into law new bills that would let religious organisations administer some aspects of welfare support, such as child care and helping the unemployed into work.

That followed earlier legislation allowing religious organisations to run parts of the prison service such as rehabilitation programmes for minor offenders.

After two years of Bush Texan radicalism, it is too early to say whether any of it has worked. Welfare rolls are indeed down, though that may simply reflect the booming economy. Crime is also down, though that too may owe as much to economic change as to legislation.

But it is clear that the governor, who seems certain to run for another four-year term next year, is at least reaping the political benefits. One recent poll gave him a 70 per cent approval rating in the state.

If he translates that rating into support in the voting booth next year, and if the Republican party nationally continues to drift, in need of a fresh sense of direction, the campaign for a second President George Bush in less than a decade may get under way in earnest.

AMERICAN NEWS DIGEST

Helmsley in property sale

Mrs Leona Helmsley, 76-year-old widow of the New York property tycoon Harry Helmsley, put her $5bn property empire up for sale yesterday and announced that she had appointed Eastdil Realty, a New York real estate banking company, as her exclusive adviser and sales representative for the portfolio.

The properties include 25m sq ft of office space, 20,000 residential units, 7,500 hotel rooms, 50 retail projects, 8m sq ft of warehouse space and hundreds of acres of unimproved land. They were assembled by Mr Helmsley in a 50-year real estate career that ended with his death in January at the age of 87. Mrs Helmsley was nicknamed the "Queen of Mean" for her autocratic treatment of employees. Indicted for tax evasion in 1988, she was convicted of evading $1.2m in federal taxes and sentenced to four years in prison after a headline-grabbing trial in which one witness quoted her as saying: "Wa don't pay taxes. Only the little people pay taxes."

A spokesman for Mrs Helmsley said she would be likely to retain the luxury New York hotels – the New York Helmsley, the Helmsley Park Lane, the Helmsley Middletowne and the Helmsley Windsor. The contents of the Helmsley portfolio have never been clear, but include the Harley chain of hotels, and the operating lease of the Empire State Building. *Richard Tomkins, New York*

Clinton in China debate

US President Bill Clinton and influential Congressmen were due to meet last night to discuss policy and budget changes to encourage human rights advances in China. The meeting comes one week before the US Congress votes on the extension of China's Most Favoured Nation trade status.

Mr Clinton's proposal will include a commitment by the administration to monitor China's human rights record through such actions as increasing staff at the US embassy in Beijing, according to the Los Angeles Times. Mr Clinton is also calling for increased funding for Radio Free Asia and the National Endowment for Democracy Program, as well as the creation of a privately funded institution to support Chinese-American exchanges.

Recent legislative bills have been aimed at condemning China's human rights policy while maintaining trade relations with the US. Yesterday, two senators introduced the China Sanctions and Human Rights Advancement Act, which would require the president to enforce existing pro-democracy programmes without affecting MFN status. *Heather Bourbeau, Washington*

Joe Camel ban contested

R.J. Reynolds Tobacco, part of RJR Nabisco, the US tobacco and food group, is suing the Federal Trade Commission over the agency's attempt to ban Joe Camel, the half-man, half-beast cartoon character the company uses to advertise its Camel cigarettes. RJR says the FTC'a investigation constitutes politically-motivated harassment.

Last month the FTC filed an unfair advertising complaint against RJR claiming that the Joe Camel campaign was illegal because it enticed under-age youngsters to smoke cigarettes. It said the investigation followed new evidence that had emerged since 1994, when the agency decided not to pursue an investigation.

RJR claimed FTC staff had ignored proper procedures in reopening the case – for example, in failing to give RJR an opportunity to dispute the charges before putting them to the agency's commissioners, who voted 3-2 to bring the case. *Richard Tomkins*

'Made in USA' starts a storm

By Nancy Dunne in Washington

The Federal Trada Commission has provoked a storm of protest among some consumer groups and in Congress by proposing to dilute regulations governing the "Made in USA" label.

A resolution, sponsored by 53 congressmen, was introduced in the House yesterday urging the FTC not to implement a proposal which would allow products with as little as 75 per cent US content to bear the "Made in USA" label.

The National Consumers League yesterday called on its members to support the resolution and urged tha FTC to keep its standard which requires that products be all or virtually all made in the US before the label can be used.

Congressman Bob Franks, a New Jersey Repnblican, said yesterday: "We cannot afford to allow a federal agency to take away an important incentive for American manufacturers to expand their domestic operations, produce new and better products and hire more workers."

In proposing to change the standard, the FTC said it was reflecting the changes in consumer expectations about domestic origin claims and changes in the world market place, giving "manufacturers and marketers increased flexibility in promoting the domestic parts and labour that go into their products".

The proposal prompted immediate reaction among labour unions and consumer groups, which formed a Made in USA Coalition and began gathering congressional support against the FTC.

Congressman George Miller, a California Democrat, has introduced legislation to restrict the use of the label to companies adhering to all US labour laws. He claimed companies making goods in the Commonwealth of tha Northern Mariana Islands, a US western Pacific territory, were paying subminimum wages to immigrants while using the label.

Chile fails to reform Senate

By Imogen Mark in Santiago

Chile's centre-left governing parties were defeated on Tuesday in a third attempt to reform the constitution they inherited in 1990 from the military dictatorship of General Augusto Pinochet.

The reform – which would abolish tha office of nine non-elected senators – has been one of tha electoral commitments of the government and of its predecessor, and has widespread public support.

But the proposal, aimed at concluding the transition to democracy, was voted down once again in the Senate, with the support of most of the right-wing opposition senators and of the current "designated" senators. They were named at the end of the military regime, and hava held the balance of power in Congress throughont their eight years in office, voting consistently with the opposition.

Next March, however, the term of the current group expires. As a result of Tuesday's vote, the government will name two of the next group, and hope to influence the nomination of two or three others, though four of the nine are selected by the armed forces. But with its own nominees tha government can hope to garner enough votes in tha next Congress to abolish the institution.

Opposition parties have always argued for the presence of the designated senators as a moderating check on possible leftwing excesses in the government. In practice, the social democrat Socialist party and its sister Party for Democracy have shown themselves to ba sober and pro-free market.

An additional complication in the debate has been the status of Gen Pinochet, who retires as head of the army next March. As a former president he takes an *ex officio* life seat in the Senate, giving him parliamentary immunity from prosecution. If all non-elected senate posts are abolished, the general could be vulnerable to court actions.

Highest growth in high street spending since 1988 prompts worries of consumer boom

Spending surge fuels rate rise fears

By Wolfgang Münchau, in London

High street spending in May hit its highest growth rates since 1988, raising fears that the UK economy is on the verge of an unsustainable consumer boom.

The data gave rise to concerns that interest rates may go up sooner and to a greater degree than previously assumed, and that Mr Gordon Brown, the chancellor of the exchequer, may raise taxes in his Budget on July 2.

According to provisional data from the Office for National Statistics, retail sales went up by an annual rate of 5.9 per cent and a monthly rate of 1.1 per cent in May. This annual increase was the largest since November 1988.

Inflation jitters were not helped by the minutes of the May 6 monetary meeting between Mr Brown and Mr Eddie George, governor of the Bank of England, the UK central bank.

At the meeting Mr Brown expressed alarm at medium-term inflation prospects.

"The chancellor said that in his judgment the government had inherited a situation in which, in the absence of corrective action, inflation would overshoot its target next year", the minutes said.

Mr Brown said his concerns about inflation were based on a series of economic forecasts and developments: the rise in consumer spending, windfalls from building society flotations, the growth of gross domestic product above its trend rate, the fast rise in house prices and the recent pick-up in average earnings.

The chancellor also mentioned the fast growth in M4, a measure of broad money, which has recently expanded significantly above its monitoring range.

Yesterday's retail sales figures will add to Mr Brown's concerns. The ONS said that consumers are increasing their spending on household goods, which includes refrigerators, washing machines, furniture and hi-fi equipment. This spending pattern is seen as consistent with the strong boom in the UK housing market.

The ONS noted that there has also been a strong increase in sales of textiles and shoes in the March-to-May period.

The provisional ONS data appears at odds with the CBI's latest Distributive Trades Survey, which shows a drop in the number of retailers reporting improved sales in May.

Mr David Walton, UK economist at Goldman Sachs, said Mr Brown's comments in the minutes amounted to "a veiled hint about tax rises". He said the chances of increase in interest rates in August "looks much more likely than we previously thought".

Councils' 'green' record under fire

By Leyla Boulton and Nicholas Timmins in London

Large wheelie bins may appear an efficient means of refuse collection but are something of a disaster both environmentally and financially, the Audit Commission said yesterday.

In a study of councils' environmental performance, the commission, which investigates public expenditure, found most have a long way to go to achieve the targets for environmental sustainability set at the Rio earth summit five years ago.

Wheelie bins, introduced for their efficiency, contribute to the problem by encouraging users to throw more waste away rather than recycling it, the study says. It adds: "The increase in tonnage collected through large wheeled bins exceeds the tonnage recycled by almost every council, thereby nullifying any initial environmental or financial benefit."

The report finds councils' performance on environmental issues is "patchy" and relatively few have turned written strategies into action.

Councils command almost £5bn ($8.15bn) a year in spending which has an impact on the environment through waste management, transport, energy and water use and service provision, the commission said in its first environmental audit.

But 83 per cent of all waste is still buried at landfill sites – enough to fill Lake Windermere, in northern England, in 18 months. The answer, the commission argues, is smaller wheeled bins and home composters for garden and food waste.

The London borough of Sutton is praised for selling composters at cost price and for using bottle banks, door-to-door paper collections and other measures in a bid to recycle 25 per cent of its waste by 2000. On average, councils recycle only 5.4 per cent of waste.

When seeking government transport funds, most councils still bid for road-building. Fewer than 20 per cent of bids relate to public transport, and just over 10 per cent are for cycling and pedestrian projects.

The report praises Oxford for implementing driving restrictions, park-and-ride schemes and improved public transport and cycling facilities. This has helped cut the proportion of vehicles entering the city for more than six hours from 30 per cent to 7 per cent.

Gas price controls tightened

By Robert Corzine and Jane Martinson in London

The longest and most bitter row between part of the former British Gas and its regulator ended yesterday when the Monopolies and Mergers Commission came down firmly on the side of Ofgas's plan to slash pipeline charges in Britain.

Ms Clare Spottiswoode, the gas industry watchdog, welcomed the MMC decision to endorse tough new price controls for the Transco pipeline subsidiary of BG plc. "They backed all our philosophical positions," she said.

BG, which will have to take a £5bn ($8bn) accounting charge to take account of the new regulatory framework, said the result of the MMC inquiry was at the "outer bounds" of what was acceptable.

Investors reacted with relief to the end of the row. BG's shares rose 6½p, or 3 per cent, closing at 219p yesterday, bucking the downward trend in the market.

Ofgas immediately accepted the MMC decision, which it said clears the way for big price cuts for gas consumers, possibly as early as October.

Ms Spottiswoode said 19m domestic consumers could expect a one-off cut of £29 from an average bill of £325. Additional annual reductions should bring down gas bills by £54 a year by the fifth and final year of the price formula period.

Commercial and industrial consumers could see their gas bills fall by between five and seven per cent over the next year.

But Centrica, the demerged half of the old British Gas that supplies the majority of households, said it was too early to put an exact figure on any reduction, while Ms Spottiswoode later admitted that the £29 figure was a "rough calculation."

Although the MMC made some concessions to BG in its findings, there was no doubt that Ofgas had won a big victory over the company, which last year called the proposals "the biggest smash and grab raid" in UK corporate history. The MMC reversed its own 1993 findings to back her central proposal on the value of Transco's asset base.

Ms Spottiswoode said the result was "really good for customers and not bad for shareholders". But BG workers are likely to be hit hard. Unison, one of the main unions for BG workers, said Ofgas had suggested that a quarter of the Transco workforce may have to go. BG has already cut 4,500 jobs since January 1996, reducing the Transco workforce to 16,000.

Industry watchdog welcomes move which promises cuts for consumers

Colin Beere

Position endorsed: Clare Spottiswoode of Ofgas yesterday

Mr Spottiswoode would not confirm the 4,000 figure, though she acknowledged last night that "there will be more redundancies". Mr David Varney, BG's chief executive, would not be drawn on possible job losses, but said the company will be "looking at all our costs".

BG executives dismissed suggestions by Ofgas officials that the decision to go the MMC had left the company £200m worse off than had they accepted the regulator's proposals last September.

Mr Varney said he had "no regrets" that the matter had gone to the MMC. The company would make the same decision today, he said. Even Ms Spottiswoode said BG's decision to appeal "was a valid thing to do".

Tory foes forge leadership alliance

By John Kampfner, Chief Political Correspondent

One of the most astonishing political alliances was born yesterday as Mr Kenneth Clarke, the former Conservative chancellor, joined forces with his erstwhile ideological foe, Mr John Redwood, in an 11th hour attempt to snatch the Tory leadership from Mr William Hague, the former secretary for Wales.

With tempers flying on the eve of the final round of the contest today, both camps claimed they had the edge. But, with several of the party's 164 MPs refusing to declare publicly, and others vacillating, the result appeared too close to call.

Mr Hague's agitated team called to arms Lady Thatcher, who first spotted him as a 16-year-old addressing the party conference in 1977. After refusing to endorse any candidate, she rallied behind Mr Hague, standing beside him outside the Commons and declaring him a man of principle.

She had earlier denounced as "an incredible alliance of opposites" the deal struck between Mr Clarke, a robust pro-European, and Mr Redwood, who had led the Euro-sceptic wing from the backbenches.

Their pact, agreed in a flurry of contacts late on Tuesday after the inconclusive second round, gives Mr Redwood the position of shadow chancellor and allows him and all Tory MPs a free vote on the issue of economic and monetary union.

Sir Peter Tapsell, a Hague supporter and veteran MP, called the deal "one of the most contemptible and discreditable actions by a senior British politician I can recall during my 38 years in the Commons".

One of Mr Hague's senior aides called it a "Faustian pact", adding: "We are looking at complete and utter meltdown of the party if this unholy alliance wins the day."

Both teams spent the day in frantic attempts to woo the 38 MPs who had opted for Mr Redwood on Tuesday.

Initial readings suggested that vote was splintering almost evenly – leaving open the possibility of a tie.

Mr Hague responded to the Clarke-Redwood challenge with an accomplished performance late in the day. He said he would not know just how many Redwood supporters had switched to him until voting tomorrow.

"There are no blocks of votes in these matters," he said.

Spain may challenge proposed licence restrictions in EU court

Anger at quota-hopping claims

By George Parker in London, David White in Madrid and Neil Buckley in Brussels

Spain yesterday reacted with a mixture of anger and disdain to British claims that it had made progress with Brussels over plans to tackle the fisheries issue of "quota hopping".

Mr Jack Cunningham, the agriculture minister, claimed that Britain had secured a "constructive outcome" in talks with the European Commission over measures to tie fishing vessels more closely to their flag country.

Britain would now plan to introduce new licence conditions "as swiftly as possible" on all boats fishing undar UK quotas, including an estimated 160 boats with Spanish and Dutch owners.

But Spain said it knew nothing of any new agreement between Brussels and London, and suggested thet it would challenge any new licence restrictions in tha European Court.

Mr Tony Blair, the prime minister, and Mr Jacques Santer, EU president, had been in close contact in the run-up to the Amsterdam summit in a search for progress on tha quota-hopper issue.

In the event, the UK failed to get quota hopping included in elthar tbe Amsterdam treaty, or separete summit conclusions. Spain is understood to have insisted the issue should not ba discussed in the main summit sessions or be mentioned in the documents.

Instead, Britain yesterday publisbed an exchange of letters between Mr Blair and Mr Santer, in whicb they agraed measures Britain might take to improve the economic links between fishing boats and the flag state.

Mr Santer said measures could include a requirement that a specified proportion of catch should be landed in the home port; Denmark specifies the proportion should be 50 per cent.

Other provisions could include demands that the majority of fishing trips should start in the home state, or that a majority of the crew should normally reside in the home state.

Mr Cunningham said Britain would hope to introduce one or more of those conditions as quickly as possible. He also said the Commission had agreed to police fisheries law more effectively.

"Because we have agreed a way forward with the Commission, we are in a much better position to avoid legal challenge to tha measures we adopt," he said.

Mr Tony Baldry, fisheries spokesman for the opposition Conservative party, said the deal was a "sell out".

"If the measures have any impact at all on quota hoppers, they will be overturned in the European Court."

A Spanish foreign ministry spokesman said the government had received no direct information of the content of the exchanged letters.

But he added that fishermen's rights to operate with UK registered vessels had been "clearly backed" on several occasions by the European Court of Justice. "I know the value a letter has in community law compared to a court ruling," he said. In the House of Commons yesterday, Mr John Major, the former Conservative prime minister, laid into Mr Blair's handling of the Amsterdam summit in which he described as "not a triumph but a travesty". Mr Blair dismissed the attack as a "good try" and paid tribute to the "very good nature and dignity" which Mr Major had shown in previous Commons clashes.

UK NEWS DIGEST

Action urged on 'cool cans'

Mr Michael Meacher, the environment secretary, is to press today for tough action by the European Union to cope with a new type of self-cooling drinks can that threatens to derail international attempts to halt global warming.

At a meeting of EU environment ministers in Luxembourg, Mr Meacher will call for an urgent study into the US-developed cans to work out their effect on the environment. An official at the Department of the Environment said it was too early to say whether s ban on the cans would be appropriate, although this could not be ruled out. Under Mr Meacher's plan, EU officials would liaise with the US Environmental Protection Agency to review measures.

The cans work by releasing a chilling gas – called HFC 134a – into the atmosphere. HFC 134a has the disadvantage of having a big impact on global warming with a more concentrated effect than the carbon dioxide which is the main cause of the greenhouse effect.

ICI, the chemical company which is among the largest makers of HFC 134a, said yesterday it wanted to ensure such gases were used appropriately. *Peter Marsh, London*

■ MARINE SAFETY

Ferry companies clash with EU

British ferry companies are locked in dispute with the European Union about new rules requiring the compilation of passenger lists.

The Chamber of Shipping, which represents the companies, objects to the lists which it insists will cause delays without improving safety. New rules requiring the lists were agreed by the EU's Council of Transport Ministers in Luxembourg yesterday.

The regulations will be introduced in January 1999 or 2000 for all journeys of more than 20 miles. That will include all Channel crossings from England to mainland Europe.

Mr Edmund Brookes, the chamber's director of marine services, said thet the ferries already had computerised counting of the number of people on board.

■ ENVIRONMENTAL HEALTH

Total ban on asbestos sought

A complete ban on the import, supply and use of all forms of asbestos in the UK is to be introduced shortly by the government it was announced yesterday in the House of Commons by Ms Angela Eagle, the environment minister.

She told MP's that a prohibition on the supply or use of asbestos would lead to s "significant reduction in overall risk to human health and we want to move to this with all speed".

Brown and blue asbestos have already been outlawed in the UK and the European Union but white asbestos is still imported as raw fibre and as products for use in building and vehicle manufacture. About 3,500 people die every year from asbestos-related diseases, two-thirds from lung cancer brought about from an exposure to asbestos. *Robert Taylor, London*

■ MCDONALDS LIBEL TRIAL

Judgment due in longest action

Judgment will be given today in the McDonalds libel trial, the longest-ever legal action in the English courts.

McDonalds sued two environmental sctivists, Ms Helen Steel and Mr David Morris, over allegations made in a leaflet published by ths campaign group London Greenpeace. The allegations concerned the company's environmental track record and its business and employment practices. The two defendants are counter-suing McDonalds for having accused them of lying. The High Court case, which began in June 1994 and lasted 313 days in court, is thought is have cost McDonalds over £10m ($16.3m) in legal costs. *John Mason, London*

■ UTILITIES

Rebuke for electricity regulator

Urgent action is required to redress the balance between the gains shareholders and consumers of electricity have received since the privatisatiun of the industry, according to the National Consumers Council in a report of takeovers in the industry published today.

The NCC says that £16bn ($26bn) of company takeovers in the sector has "lined the pockets of shareholders" but done nothing for consumers by way of lower electricity prices.

The NCC report amounts to a powerful rebuke of Offer, the electricity regulator and is bound to add some weight to the pressure for change in the way that UK utilities are regulated. *Simon Holberton, London*

■ INVESTMENT WATCHDOG

Complaints soar by 60%

Complaints to the Personal Investment Authority ombudsman soared 60 per cent last year and compensation paid to complainants jumped 72 per cent.

Mr Stephen Edell, who retires as ombudsman at the end of this month, also reported a 160 per cent rise in the number of cases dealt with, saying the bureau had appointed more staff and two extra ombudsman to handle a backlog.

A total of 4,310 complaints were received and 3,375 cases completed. Firms were found to be wholly or partly at fault in 47 per cent of cases. Compensation rose to £4.3m ($7m) from £2.5m. *Christopher Brown-Humes, London*

Trevor Humphries

Sam Chisholm – " a terrific leader", says Rupert Murdoch

Satellite TV venture sees change at the top

Raymond Snoddy assesses the career of Sam Chisholm, chief of British Sky Broadcasting

Mr Sam Chisholm, chief executive for nearly seven years of British Sky Broadcasting, the satellite television venture, has announced he is stepping down at the end of this year because of medical advice that he is endangering his health.

Mr Chisholm, aged 57, has been suffering from serious asthma following a history of haavy smoking. He will be replaced by Mr Mark Booth, a 40-year old American who has considerable experience of tha UK media.

Mr Chisholm came in the UK from Australia in September 1990 to take control of the newly merged British Satellite Broadcasting and Sky, when the combined group was losing £14m ($22.82m) a week. He now presides over a company with a market capitalisation of £10bn.

Mr Rupert Murdoch, chairman of The News Corporation, which has a 40 per cent stake in BSkyB, said: "He has been talking to me about it [retiring] for about a year until he finally said 'Look, I've got to do it'."

A small man with a large, witty, but often ferocious presence, Mr Chisbolm had been called an Australian James Cagney, although he is in fact a New Zealander. He has battled on against a scale of illness which, it is believed, would have forced most people to stop work.

He will remain a non-executive director of BSkyB and will have a consultancy with the company for at least two years. He will receive a lucrative parting package, involving two years' salary and share options. He has a relatively modest salary of just under £300,000, bnt when he joined BSkyB negotiated a package that ensured he would be paid 0.5 per cent of profits. In the year to last June BSkyB had pre-tax profits of £257m on a turnover of £1bn.

Mr Booth, Mr Chisholm's successor, launched the European version of the MTV music channel and was in charge of the television interests of the late Robert Maxwell. He is chief operating officer of JSkyB, News Corp's Japanese satellite television.

Mr Murdoch said that an obviously strong candidate to succeed Mr Chisholm – his deputy Mr David Chance – had ruled himself out of the succession. Mr Chance has also been ill recently and is expected to leave at the end of the year, whila remaining as a consultant.

Mr Murdoch praised Mr Chisholm as "a brilliant executive" who had pushed BSkyB forward.

"Sam is a terrific leader," he said. "He gets the best out of people, sometimes by inspiration, sometimes by terror. He is a strict believer in the carrot and the stick, perhaps a bit more of the stick than the carrot." Mr Murdoch came to London for the retirement announcement.

Mr Chisholm's 8.30am Monday management meetings became notorious occasions during which he would often rant about the total incompetence of "the Poms" [the British] and the impossibility of the British television environment.

This was largely en elaborate theatrical game. The BSkyB senior managers were a closely knit team and most of them stayed with the company, with the exception of Mr Kelvin MacKenzie, the former editor of The Sun newspaper, who resigned after six months and many battles with Mr Chisholm.

It was Mr Chisholm who negotiated BSkyB's all-important deal with the English football Premier League for exclusive live coverage on Sunday afternoons and Monday evenings. The deal, since renewed, drove dish [aerial] sales as nothing else could. The number of homes taking BSkyB through dishes or cable in the UK and Ireland has topped more than 6m.

But perbaps bis greatest achievement was to chisel ont bit by bit a complex industry agreement on the introduction of digital satellite television.

Almost as important was an agreement between BSkyB, BT, the Midland Bank and Matsushita to found British Interactive Broadcasting – a consortium which will launch services such as home shopping and banking next summer and subsidise the "blackbox" decoders which can handle 200 TV channels.

As Mr Booth gets to grips with the difficult task of implementing both projects next year, Mr Chisholm will be spending more time in Australia. Last year, he bought a ranch within 50 miles of the Murdoch family and a house in Sydney.

Soon after he took over at BSkyB a journalist told Mr Chisholm he had discovered his secret. "What is that?" asked a startled Mr Chisholm. "You are not nearly such a bastard as you let people think."

"Please don't tell anyone," Mr Chisholm replied with a smile.

ARTS

Cinema/Nigel Andrews

Dubious shot at troubled history

The Devil's Own went through the torments of the damned during production. How do you make a film about contemporary history when that history is changing by the second?

Here is a tale of love-hate buddyism between an IRA arms runner (Brad Pitt with flawless accent) and the initially unsuspecting American policeman and family man (Harrison Ford) with whom he stays while preparing to buy and smuggle out Stinger missiles. Here is a New York bursting with Irish-Americans who seldom seem up to the minute, or hour or day, on what is actually happening in Ireland. (The film was shot during the on/off peace process). And here is a director, Alan J. Pakula of *Klute* and *All The President's Men*, whose sombre humanism can bland out with a poor script – by three writers including Kevin Jarre, who conceived the story – into political soap opera.

"If you're not confused, you don't know what's going on," says Pitt of the Troubles. Too true; though that is no licence to baffle the audience. It is never clear what Ireland Pitt has come from or is going back to, nor whether the film sees his Republican activism as saintly heroics or the irrational by-product of a childhood trauma (at eight he saw his Dad shot by Brits), nor why, by all that's Irish, he chooses the home of a non-IRA-sympathising cop for a "safe house".

The actor reportedly went near-ballistic as the shooting/re-writing schedule stretched on to accommodate each fresh news-break from Ireland. On screen he and Harrison Ford have fair chemistry, although Pitt's luminous, golden-haired Christ figure seems to have been lit by a different cameraman from the one who exposes to cold daylight Ford's greyer, more leathered features. That the great cinematographer Gordon Willis (*The Godfather*, *Annie Hall*) lit both men is not the least of the film's troubling anomalous surprises.

★

Keep your wits about you if you venture into *Marvin's Room*. You will hardly have opened the door before the light goes on and Meryl Streep and Diane Keaton cry, as it were, "Surprise!": the surprise being that two heavyweight actresses have been cast in a bantamweight comedy-weepie. They will then hand you a free box of tissues, or they should, for this tearful tale of two sisters based on a stage play by Aids victim Scott McPherson.

Summoned by family crisis, the selfish Streep re-bonds with the caring Keaton over the deathbed of their father Hume Cronyn. Meanwhile Streep's "troubled" teenage son Leonardo DiCaprio behaves like John McEnroe on a bad tennis day, at least until Doctor Robert De Niro persuades him to give a blood sample to save the bone-marrow-needy Keaton. For she, yes, (it is that kind of film) is dying too.

THE DEVIL'S OWN Alan J. Pakula
MARVIN'S ROOM Jerry Zaks
INTIMATE RELATIONS Philip Goodhew
KAMA SUTRA Mira Nair
THE CHAMBER James Foley
PRIVATE PARTS Betty Thomas

The emotion is soon up around the filmgoer's ankles, then his knees. Best, though, to surrender to submersion. The direction is surprisingly assured and unblenching, the "big scenes" are persuasive, and the performances are high on charisma and courage: especially since they must survive lines like that of Keaton to Streep, "My feelings for you are like a big bowl of fish-hooks." One pictures the look of near-nuclear incredulity Woody Allen would have given if she had ever said that in *Annie Hall*.

From Britain, *Intimate Relations* is another family saga, this time a blend of *Entertaining Mr Sloane* with Pasolini's *Theorem*. "My husband and I keep separate rooms for medical purposes," says Julie Walters as only she can, with a camp, sniffy solemnity. She is explaining domestic life to her new lodger Rupert Graves, and there is much to be explained. Her husband polishes his wooden leg at the breakfast table, the dog (male) is called Margaret Rose, and the daughter whines "It's my *birthday*!" when the lodger and landlady, freshly bedded down, tell her she cannot climb in with them between the sheets.

Inexplicably and unforgivably, this truth-based 1950s-set story ceases to be funny half way through, somewhere around the axe attack scene at the picnic. By then Walters has become a fully-fledged Phaedra, Graves is seeking sporadic refuge in military service, and first-time writer-director Philip Goodhew has little more idea than we how the new melodrama of mad passion is supposed to fit with the old comedy of mad manners.

Mira Nair's *Kama Sutra* has shocked India with its frank picture of men and women kissing. They seldom venture further in this demure adaptation of the great religious book we all know: the one that always seems to be inexplicably better-thumbed than the Bible.

The maker of *Salaam Bombay!* and *Mississippi Masala* has a talent for local colour but little else. The visuals are gorgeous, a riot of rainbow clothes and veils and jewelled palaces. But the colours flatter and end up flattening Nair's attempt at a three-dimensional drama. The maidservant and princess raised as sisters (Indira Varma, Sarita Choudhury) who go on to fight over two men, a prince and an artist-commoner, experience in theory every variety of love from the chastely poetic to the passionately carnal. But it is hard to tell one from another in a film where all is seamless chromatic razzle, accompanied by archly antique'd dialogue.

The Chamber, based on the John Grisham novel, is a workout for the human conscience. No whodunnit plot, no courtroom callisthenics, just the tale of a young lawyer (Chris O'Donnell) seeking a chink of reprievable virtue in his grizzled Klansman grandfather (Gene Hackman), condemned to the gas chamber for murdering a black man.

The film is honourable and liberal, but after *Dead Man Walking* it is dead men talking. The action is nudged forward by speeches. The speeches are nudged forward by logorrhoea-dazed actors who never quite transform themselves from type.

Hackman lost 30 pounds to incarnate the Death Row castaway but still looks and sounds like Hackman: Popeye Doyle on a diet. The puppy-dog charm that Chris O'Donnell brought to playing Ernest Hemingway is all he brings here. And though Faye Dunaway lights up the screen in brief appearances as Hackman's alcohol-bingeing daughter, it is the light of histrionic madness rather than illumination.

She would be a treat in *Private Parts*. The infamous American radiocaster Howard Stern, who insults his guests, tells disgusting jokes and all but has sex on the air, bestrides this timid comedy based on his own autobiography.

Where is the political incorrectness? Where is the *appalling*, as distinct from merely bad, taste? Instead we have "Good Morning, Manhattan" with a seven-foot, Jewish, tumble-haired Robin Williams substitute wowing the listeners and ritualistically outraging the radio bosses. Though there are glimmers of the true, scabrous Howard Stern – "Is it pronounced Monaco, or Mon-ab-co? Well, anyway, she's dead" is his news summary of Princess Grace's demise – they stay glimmers. The film does for Stern what *Blue Peter* might do for Bernard Manning.

A tale of love-hate buddyism: Brad Pitt as an IRA arms runner in 'The Devil's Own'

Concerts

A happy mix of old and new

The world's number-one-selling conductor, according to the record charts, does not appear that often in London to give a standard orchestral concert. John Eliot Gardiner works regularly with his two period bands, the English Baroque Soloists and the Orchestre Revolutionnaire et Romantique, but his dates with London's symphony orchestras are few and far between.

So far, the ration has been one a season with the Philharmonia. But on Tuesday Gardiner started up a new association by stepping on to the podium in front of the London Symphony Orchestra, the first of two concerts at the Barbican: it was an orchestral spectacular, pairing Stravinsky's *Firebird* in the first half with Berlioz's *Symphonie fantastique* in the second. On Sunday he conducts a concert performance of Stravinsky's *The Rake's Progress*.

It is not such a long way from the Monteverdi and Purcell of Gardiner's early years to Stravinsky as it may seem. The athleticism and clarity that "period" conductors like Gardiner instilled into early music come in handy when facing a brilliant 20th-century ballet score. If anything, some of the speeds in *The Firebird* were too fast, but this was a fleet, supple and light-textured performance – at least until the last couple of minutes. Then Gardiner unexpectedly put on the brakes and turned the final peroration into tha dogmatic series of slow, grinding chords that we know Stravinsky disliked.

The *Symphonie fantastique* was a fairly spectacular showpiece: not controversial, as one might have expected after Gardiner's period-instrument performances, but an impressive piece of highly-disciplined orchestral playing. It cannot just be the re-seating of the orchestra, with first violins to the left and seconds to the right, that made the difference. The LSO's string sound here was well-knit and ensemble exact. It was fascinating to compare this Berlioz with Simon Rattle and the Vienna Philharmonic two months ago: Rattle was so wild, seeing hallucinatory visions in every bar, while Gardiner presented us with a cogently-argued symphony – the opposite outcome to what one might have expected.

★

Meanwhile, on the fringes of the City of London the Spitalfields Festival is putting forward an imaginative programme, featuring its usual mix of early and new music. Last week I caught its most important premiere, the first performance of Judith Weir's Piano Concerto. At barely a quarter-of-an-hour's music, this was Weir at her most typically concise. Marvellously imaginative ideas, like the opening piano flourishes flitting high in its register against hanging string chords, are snatched away almost before they have time to make an effect. Developing those ideas is not her strong point. But the pastoral slow movement and finala, with its mock-Rachmaninov big tune (tongue in cheek at this point, I suspect), work well in their miniaturist way. Weir's style demands precision playing and the BT Scottish Ensemble, with William Howard as the pianist, did not let her down.

Richard Fairman

LSO concert sponsored by JVC.

Alastair Muir

Twiggy: a vision in diaphanous white as Elvira

Theatre/Ian Shuttleworth

Down-to-earth spirit of Noël

It is the curse of every actress playing Madame Arcati in *Blithe Spirit* to suffer a persistent and almost certainly unfavourable comparison to Margareth Rutherford. Tim Luscombe's Chichester production had originally engaged Maureen Lipman, who one can imagine making the role her own; following Lipman's withdrawal due to illness (from which she is thankfully recovering), she has been replaced at relatively short notice by Dora Bryan, who might conversely be seen to belong to the role.

Bryan's amiable scattiness fits well into a portrayal of Madame Arcati which goes for twee rather than robust eccentricity – the loudest applause of the evening was for her comical ungirding of herself from her bicycling rig – but, whether through pressures of time or other factors, she is a little *too* scatty as regards lines; at times it almost seems as if her next phrase is to be whispered to her by a prompting spirit, or to be ingested along with the next cucumber sandwich.

Overall, Luscombe concentrates on maximising the entertainment of Noël Coward's comedy rather than uncovering its hidden depths: when, for instance, Charles Condomine hints to his second wife Ruth that the sudden ghostly reappearance of his former spouse Elvira might make for rather a lot of fun, there is nary a hint of etheric troilism. Steven Pacey as Charles, and even more so Belinda Lang as Ruth, make a fine Cowardian couple, evenly matched in terms of verbal fencing skills but neither so poised as to turn matters into a formal exercise.

Twiggy Lawson as Elvira is a vision in diaphanous white who alternately sashays around the stage and clumps across it (this is one ghost whose footsteps are decidely audible). She manages to combine a delightful and generally un-puckish playfulness with a paradoxically down-to-earth directness, conveying a greater breadth of character than the contentedly circumscribed Ruth and thus furnishing more reasons than simple physical attractiveness for the latter's jealousy.

The most enjoyable moments of the production are very enjoyable indeed: the cross-purposed exchange in Act 1 between Charles, Ruth and an Elvira visible and audible only to her husband; Madame Arcati's excited simpering when Elvira hands her anything; even the final-act scene-change when both Elvira and the now deceased Ruth "haunt" the stagehands. Illusions are discreetly but effectively designed by Paul Kieve, a man whose theatrical credits are almost as ubiquitous as rostrum cameraman Ken Morse's in television.

At almost three hours (including two intervals) it ought to feel overlong, but things are kept simmering more than agreeably enough to dispel such cavils.

Chichester Festival Theatre until August 3 (01243 781312).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Koninklijk Filharmonisch Orkest van Vlaanderen: with conductor Grant Llewellyn and mezzo-soprano Katarina Karnéus in works by Berlioz and Mendelssohn; Jun 22

■ ATHENS

DANCE
Odeon Herodus Atticus
● Ballet Nacional de Espana: performs *Bolero* choreographed by Granero to music by Ravel, *Danza y Tronio* choreographed by Mariemma to music by Soler, Boccherini and Abril, *La Gitanilla* choreographed by Granero to music by Abril and *Japateado* choreographed by Sanchez to music by Sarasate; Jun 19, 20

■ BERLIN

CONCERT
Konzerthaus Berlin
Tel: 49-30-203090
● Symphony No.5: by Mahler. Conducted by Sergiu Commissiona, performed by tha Berliner Sinfonie-Orchester; Jun 21, 22, 23

EXHIBITION
Museum für Ostasiatische Kunst Tel: 49-30-8301382
● Haiga und Haiku: display of sketches and poems by Takebe Sôchô from the collection of Shôzaburô Masuda, Tokyo; to Jul 20

■ CARDIFF

CONCERT
St. David's Hall
Tel: 44-1222 878444
● Cardiff Singer of tha World Final: with conductor Graeme Jenkins and the BBC National Orchestra of Wales. Grand final of the annual week-long competition, featuring entries from as far afield as Venezuela and China; Jun 21

■ CHICAGO

EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● Michelangelo and His Influence: Drawings from Windsor Castle. Exhibition examining examples of Michelangelo's draftsmanship and demonstrating his impact on contemporaries and successors; to Jun 22

■ LONDON

EXHIBITION
National Portrait Gallery
Tel: 44-171-3060055
● The Pursuit of Beauty: exhibition examining changing notions of beauty. The display has interactive elements, including the opportunity for visitors to try on top hats, wigs, corsets and doublets. A number of portraits from the NPG's collection will be exhibited; to Sep 7
Victoria & Albert Museum
Tel: 44-171-9388500
● Chairs for a Purpose: the inventiveness of 18th- and 19th-century chair-makers is explored in this display which shows chairs made for a specific purpose or for particular rooms; to Jul 15

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza
Tel: 1-213-626-6222
● Toba Khedoori: the first one-person museum showing of the work of this Los Angeles artist. Khedoori's paintings, executed in oil and wax on paper, present reductive, fragmentary images within vast expanses of luminous, textured surfaces; to Jul 13

■ LYON

DANCE
Opéra National de Lyon
Tel: 33-4-72 00 45 00
● Ballet de l'Opéra de Lyon: performs *Petrouchka* choreographed by Nadj and *Concerto* choreographed by Schlömer to music by Stravinsky; Jun 20, 22

EXHIBITION
Musée des Beaux-Arts de Lyon
Tel: 33-4-72 10 17 40
● Un combat pour l'art moderne, hommage à René Deroudille: display paying tribute to the 1930s art critic and featuring 80 works selected from the museum's collection, including works by Léger, Dubuffet, Villon, Picasso and Benrath; to Aug 17

■ MANCHESTER

EXHIBITION
The Whitworth Art Gallery
Tel: 44-161-275 7450
● Sean Scully – Works on Paper: display of work by the Dublin-born contemporary abstract painter, concentrating on his watercolours, pastels, collages and drawings of the past 15 years; to Aug 25

■ MONTPELLIER

FESTIVAL
Festival International Montpellier Danse
Tel: 33-67 60 83 60
● Montpellier Danse 97: this year's international modern dance festival includes performances by the Moscow Dance Academy, the Twyla Tharp Dance Company and the Columbian Ballet. Opening the festival is the Spanish Antonio Gadès, performing *Carmen*, choreographed by Gadès and Saura to music by Bizet, Gadès, Solera and Freire; from Jun 22 to Jul 5

■ MUNICH

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
● Michail Wrubel und der russischa Jugendstil: the first display of work by this key figure in Russian Symbolism to be held in the West features more than 30 oil paintings, 150 works on paper, 20 ceramics and a group of sculptures; to Jul 30

■ NEW YORK

EXHIBITION
The Pierpont Morgan Library
Tel: 1-212-685-0008
● An Eye for Beauty: The Alice Tully Collection: display of 70 works, including pieces by Raphael, Tiepolo, Natoire, Turner, Manet, Cézanne, Barye and Guardi. The collection also features a selection of musical manuscripts, including two by Robert Schumann; to Aug 31

JAZZ & BLUES
Carnegie Hall
Tel: 1-212-247-7800
● Rachella Ferrell: performance by the singer, accompanied by saxophonist Ronnie Laws and the Gonzalo Rubalcaba Trio; Jun 21

■ PARIS

AUCTION
Drouot
Tel: 33-1-48 00 20 42
● De Claudel a Rodin: sale of sculptures and paintings, with highlights including two busts by Rodin; Jun 20

■ STRASBOURG

EXHIBITION
Musée Art Moderne Ancienne Douane Tel: 33-388 32 48 95
● Itinéraire d'une Passion: exhibition paying tribute to the art collectors Othon Kaufmann and Francois Schlageter, including works by Giambattista Tiepolo, Anton van Dyck, Cavallino and Canaletto; to Aug 31

■ VIENNA

EXHIBITION
Museum für Angewandte Kunst
Tel: 43-1-71136
● Wilhelm Scherubl: der Kreis der Sonnen: installation by the contemporary sculptor, which can be seen on the museum's front terrace, featuring a number of strategically placed buckets; to Jul 6

JAZZ & BLUES
Konzerthaus Tel: 43-1-7121211
● Axel Zwingenberger, Tibor Grasser and Frank Muschalle: the three pianists play a selection of 1930s jazz; Jun 20

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Die Entführung aus dem Serail: by Mozart. Conducted by Adam Fischer, performed by tha Zürcher Oper. Soloists include Elizabeth Magnuson, Malin Hartelius and Roberto Saccà; Jun 21

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Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

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08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Economic Viewpoint · **Samuel Brittan**

Too many weasel words

Flexibility is an evasive term used by the Euro-establishment to avoid saying that excessive pay costs can often price workers out of employment

In European discussions about how to reduce unemployment British spokesmen have made much of the slogan of "flexibility". This is in contrast to the French emphasis on more expansionary financial policies and make-work infrastructure projects. The British brief has hardly changed between the outgoing government of Mr John Major and the incoming administration of Mr Tony Blair. Business leaders throughout Europe and further afield wholeheartedly embrace the slogan.

But what on earth does it mean? Flexibility of what? Earlier attacks were on "rigidities". So, presumably, flexibility means the absence of rigidities. How can we break out of this circle of tautologies?

An attempt was made on June 12 by Mr Niall FitzGerald, chairman of Unilever, in an address entitled "Tomorrow's Europe". But even be did not face up to the central issue. He said flexibility "means flexible working patterns, the ready availability of workers with the right skills, and – crucially – a less rigid labour market, with lower social costs and less regulation".

Mr Ferguson gave an example of rigidity and regulation. "In France, regrettable but necessary decisions to close plants lead to court cases and unnecessary long delays – of over a year in the case of one Unilever plant. We would prefer to spend that time working with staff to help them find alternative work and offering advice and help on re-training." The logic is that such cumbersome redundancy proceedings – although intended to protect jobs – actually destroy them because they make employers hesitant to take on workers.

But are there not levels of pay itself which would discourage job creation just as much? Mr Ferguson went out of his way to say that "flexibility should not be management-speak for lower wages"; but sometimes it is and should be, Mr Ferguson. The Unilever chairman even made populist references to "sending 10-year-old boys down chimneys", attacked "less scrupulous businesses" that exploited workers and hit at the "hire and fire" culture of some US businesses.

He did not explicitly deny that the price of labour affects the demand for it. But the only kinds of costs where he was prepared to ask for flexibility were those which are not called wages. Social security charges were a favourite example of his as of many other European employers.

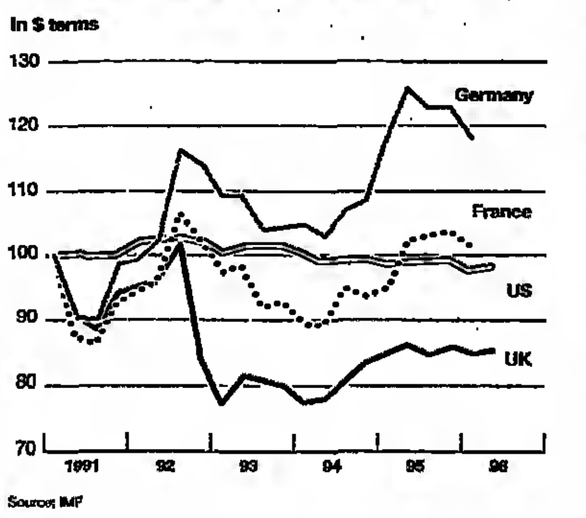
Yet are not social security charges meant to pay for benefits or services in kind? There are endless arguments as to whether wage-earners get value for money. But presumably the benefits are worth a good deal more than zero. If governments remit social charges they must raise other taxes or cut some government spending. In either case the real post-tax value of wages will be squeezed.

Much is rightly made of the Dutch example where social overheads were slashed, other taxes raised and public spending curbed. But the key point is that the unions agreed not to try to raise pay in compensation. Indeed gross real wages fell over five years. Such a deal was still just possible in a small consensus-minded economy like that of the Netherlands.

It is indeed difficult to state accurately the relation between employment and pay. Some workers are almost certainly being paid too little to clear the labour market – for instance good science teachers. It is also true that, if a worker's skills or attitudes can be improved, he or she will be worth more. So, in order to avoid scoring own-goals, economists are tempted to use jargon such as "bringing pay nearer to market-clearing levels". I shall talk of "pay costs".

There are many different economic forces which affect unemployment. Variations in pay costs – as with other prices – simply help to clear the market, taking other variables as they are rather than as we would like them to be. So it is difficult to isolate the influence of pay costs on their own. This is especially true in econometric exercises which usually deal with large aggregates. Moreover, in a dynamic economy pay restraint can take the form of forgoing increases rather than literal reductions.

Unit labour costs (manufacturing)



Baroness Thatcher once asked me if I thought it was all right to refer to labour costs as the key to jobs. Around a lunch table I had to respond weakly: "Not really." But, with more time for reflection, I will put it this way. If pay is too high, employers may respond by labour-saving investment. This raises productivity in the crude sense of output per head and thus may reduce labour costs. But it does not stop employment being reduced. Indeed it is part of the process.

Nevertheless, if we are to look at national statistics for even partial illumination we have to take unit labour costs as better than nothing. The chart shows that labour costs in manufacturing, measured in a common currency, have fallen in the UK in the 1990s relative to some principal trading partners; and the UK also has a better jobs record.

The key to the good British performance was unfortunately neither pay moderation nor productivity growth but sterling depreciation, following the country's departure from the Exchange Rate Mechanism. In the latest period (not covered by the chart) sterling has recovered to where it was before leaving the ERM.

Employment could nevertheless still continue to advance in the UK. Optimistically this could happen through induced improvements in performance, quality, salesmanship and so on, or, less attractively, through an eventual drop in the pound, a squeeze on manufacturing pay or perhaps through an expansion in the non-manufacturing three-quarters of the economy which is also the part where pay is most variable.

What do we do about workers whose market pay is not enough to provide a reasonable standard of living for themselves and their families? In *Viewpoint* (April 10) I suggested that the slogan should not be "welfare to work" but welfare *and* work. Labour's four proposals, to be paid for by the windfall tax on utilities, implicitly recognise both the relation between pay costs and jobs and the need for in-work top-ups. The hope is that by increasing people's employability the cost to the rest of us will prove limited and temporary.

People under 25, unemployed for more than six months, will have a choice of: a private sector job with a £60 subsidy per week for the employer for six months; "benefit plus" employment in the voluntary sector for a similar period; a job with an environmental task force or full-time study.

The first option is a straightforward pricing-into-work device, with a top-up paid to the employer rather than the employee. The second and third options consist of a subsidy to chosen workers at what is likely to be less than the prevailing average wage for the age group. The final educational option is an attempt to raise young people's value in the labour market by a period of study.

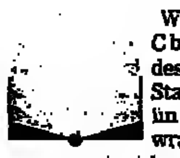
They all depend on opposite reasoning to the minimum wage proposals and may in part offset the unemployment which that wage would otherwise create.

But I am afraid that neither new Labour nor the whole Euro-establishment will persuade me that the demand for labour is insensitive to pay costs. Nor will they persuade me that water runs uphill – unless of course it is pumped.

BOOK REVIEW · Chrystia Freeland

KREMLIN CAPITALISM: the Privatization of the Russian Economy
By Joseph Blasi, Maya Kroumova and Douglas Kruse
Cornell University Press $42.50 (hb) $16.95 (pb) 249pp

Bleak answer to Russia's riddle



Winston Cburcbill's description of Stalin's Kremlin as a riddle wrapped in a mystery inside an enigma might have been coined to describe the post-Soviet Russian economy.

More than six years after President Boris Yeltsin and his young team of reformers took on the mammoth task of transforming the world's first communist economy into a capitalist one, the jury is still out on the success of their efforts. Optimists point to Moscow's giddily rising stock market, the transfer of 80 per cent of industrial enterprises mainly into private hands, relatively low inflation and a stable currency as proof that Russia is on the verge of an economic boom.

But pessimists marshal an equally impressive arsenal. The Russian economy, which began to shrink in the late 1980s, has continued to contract. Massive wage and pension arrears – which have impoverished millions of Russians – are mounting. Ths Kremlin's gung-ho reform squad has heen forced, yet again, to postpone its promise of economic recovery, saying growth will begin only next year.

Josepb Blasi, a US economist, and two research associates have joined the debate. Their book judges Russia's transformation on the basis of a thorough survey of Russian companies. As one of the idealistic western economists brought in to advise the Kremlin on privatisation in 1992, Blasi might be expected to be on the side of Russia's cbeerleaders. Instead, after pages of ponderous prose and an eye-blurring stack of charts and tables, be delivers a bleak verdict.

On the evidence of their survey, which has studied nearly 1,000 companies, the authors conclude that a depressing three-quarters still need radical restructuring. Even more grimly, Blasi and his comrades say at least a quarter of those companies should be bankrupt.

Although they sympathise with the goals and the architects of Russia's mass-privatisation drive, the authors believe that privatisation has barely begun to achieve what must be its central goal – stimulating companies to produce more goods more effectively for an increasing number of consumers. Worse still, their bleak conclusion is that, when the great mass of Russian companies attempts this transformation, a significant number will fail.

The obvious question is wby mass privatisation, a heroic effort, has been so slow to bear fruit. Blasi and his colleagues say one of the reasons is the highly unfavourable environment into whicb Russia's private sector was born. The authors are particularly harsh with Mr Mikhail Gorbachev, the former president. They say his failure to begin gradual market reforms in the 1980s deprived the country of the crucial head start which has made the capitalist transformation easier in countries such as Poland, Hungary and China.

They also criticise western governments and aid organisations for their "laser beam" focus on privatisation, arguing that insufficient attention was paid to the institutional transformations required to make Russia's newly privatised companies viable. Many reformers were tempted by the simplistic idea that private property is all it takes to make a market economy. The book offers a useful caution against this.

Blasi and his colleagues also lament tbe dearth of buman capital in Russia and see the deeply ingrained Soviet-era attitudes of the nation's managerial class as another brake on corporate restructuring. That is certainly true, but it would also be wrong to underestimate the alacrity with which millions of Russians bave adapted to the profit motive, as Moscow's boutiques and the sharp businessmen who shop there demonstrate.

The problem for the Russian economy is that for the past six years the richest rewards have been available to insiders able to extract cbeap credits, cbeap commodities or cheap companies from the government, not to managers willing to take on the painstaking task of restructuring Russia's rusting industrial behemoths.

The optimists hope this is changing, and in Russia's gradually improving business climate they see reason to believe that Blasi's researchers will encounter more cheering responses in future. Tbe new liberal reform team in the Russian cabinet has vowed to end the sweetheart deals witb friendly banks that made it more profitable to lobby the government than to reshape the economy.

But even if Russia's ageing president can sustain tbe political will to push ahead with these promising initiatives, for Russia's devasted industrial heartland, the hardest part is yet to come as inefficient companies are forced into bankruptcy. Surviving that could be the biggest challenge Russian reformers have yet faced. But it is Russia's only chance of turning capitalism into something more than a dirty word.

Kremlin Capitalism *is available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK*

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Transladon may be available for letters written in the maiq international languages.

Fear that motivated Germany on stability pact penalties

From Mr Carl Lankowski.

Sir, Further to the Emu discussion, fear of a coalition of deficit countries is what motivated Germany to argue for automaticity of penalties in the stability pact. Unfortunately, the underlying problem is not addressed in this way. Elimination of market rigidities implies adjustments that may be intolerable in the short term. Deficits or community resources may be needed politically to allow Emu to proceed.

If deficits are ruled out, there is no getting around the need to contemplate better forms – and perhaps larger amounts – of EU-level inter-regional financial transfers to belp absorb the shocks and ease adjustments. In doubling its lending in only 10 years, the European Investment Bank is clearly already part of the equation here. Large on-budget measures may also be necessary.

**Carl Lankowski,
research director,
American Institute for Contemporary German Studies,
1400 16th St., NW,
Washington DC 20036, US**

Injustice of bananas ruling clear to see

From Mrs Glenys Kinnock MEP.

Sir, It is indeed welcome news that the European Commission has appealed to the World Trade Organisation against the ruling that the EU banana regime discriminates against Latin American bananas ("EU appeals against WTO banana ruling", June 12).

The complaint was lodged by the US, which has never, in fact, exported a single banana, along with Chiquita and other Latin American producers. The legalities of the situation have rightly been called into question by the Commission and concern has been expressed about the fact that the Carihbean prodncers were denied access to comparable legal support at the panel hearing.

The injustice of the situation is clear to all of us who know that the security of the Carihbean islands, which depends on the crop, will be severely threatened if the adjudication is upheid. They will then be unable to compete with bananas from the large plantations of Latin America.

President Clinton has described the banana regime as a "European cartel". You have to ask why the US is so concerned to protect the interests of the banana multinationals. Can it be because of the funding the Democrats' campaign received from the Head of Chiquita Brands Carl Lindner? Maybe it is cynical to suggest that altruism took second place when the decision to complain to the WTO was taken. Maybe a night in Lincoln'a bedroom was insufficient recompense for the support which was received from Carl Lindner.

**Glenys Kinnock,
European parliament,
97 rue Belliard,
Brussels B-1047,
Belgium**

Project not jointly developed

From Mr David Nathasingh.

Sir, On June 4 you published an article, "Hitachi, AlliedSignal develop new transformer", based on information received from AlliedSignal executives and written responses submitted from Hitachi regarding a new transformer being developed by Hitachi using AlliedSignal's amorphous metals.

The tone of the article could suggest that Hitachi and AlliedSignal are jointly developing a new type of transformer. This is not true. AlliedSignal supplies the patented energy saving material. The design, engineering and manufacturing are solely being completed by and for Hitachi and its customers. Any interpretation to the contrary is incorrect.

Also, the Y10bn investment figure was mistaken. It should be Y1bn.

**David Nathasingh,
business segment leader,
electrical transformers,
Allied Signal,
6 Eastmans Road,
Parsippany, NJ 07054, US**

Tax move would hit inward investment in the UK

From Mr Richard Law.

Sir, As speculation grows that the budget will reduce advance corporation tax or the related tax credit, most of the comments have focused on the impact on pensions. The potential impact on inward investors and investment in the UK generally appears to have been overlooked.

To an inward investor, ACT may not seem to be a big issue. But if our tax treaty with the country of the parent company allows a repayment of the tax credit, its disappearance could increase the effective tax rate on UK profits by 5 per cent or so. This will make the UK much less attractive as a destination for inward investment. Most affected would be the US, our biggest source of such investment by far.

Interestingly, tbere has recently been talk of "transitional arrangements" to rednce the effect of a change on individuals. Perversely, this may enable inward investors to continue to benefit from a repayment of the tax credit, entitlement to which, under our tax treaties, is generally linked to the entitlement of a UK individual.

For a UK group, the effects of a change are more snbtle. A group writing off ACT may actually be skewing its investments to favour tbe UK and to create domestic profits which can use up ACT. Reducing ACT would remove a factor which encourages sucb groups to invest in the UK rather than overseas.

**Richard Law,
Ernst & Young,
Becket House,
1 Lambeth Palace Road,
London SE1 7EU, UK**

From Mr Michael Renshall.

Sir, There is a misconception that if the tax credit on dividends is abolished the lost income to pension funds can be made up by injections from companies ("Dividend tax credit expected to be scrapped", June 16).

Even if this facile assumption were true, it could only apply in defined benefit company schemes, whicb guarantee final pensions for their members. No thought seems to have been given to the many millions more of defined contribution personal pension plans which have no benign employer standing behind them.

The dividend credit is a significant element in planning the necessary contributions to accumulate a fund sufficient to meet pension needs. If this income stream is amputated there will be a shortfall which cannot be made good, retirement plans will be savaged and reasonable hopes betrayed.

Every individual with a personal pension plan should be made aware of the implications of this proposal.

**Michael Renshall,
50 Cleveland Square,
London W2, UK**

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday June 19 1997

Europe becalmed

No one had great expectations from the EU's Maastricht revision conference. But even the lowest expectations have been disappointed by the paltry results achieved in Amsterdam yesterday morning.

One or two governments, in the more Eurosceptic countries, have been so bold as to claim the outcome as a victory. But whatever they achieved was entirely negative.

The "threat" of integration into a federal superstate, if threat there was, has been held at bay. But the price paid is the abandonment of any serious effort to develop structures capable of managing a larger union. That is a defeat for Europe as a whole, but especially for those states which have posed as champions of enlargement. The truth is that there are no victors, only losers, in this sorry affair.

It is not surprising, perhaps, that the UK found ready allies in its battle to stop the EU usurping Nato's role as a defence organisation. It is more so that the UK's opt-out from common border controls, with Ireland as an enforced partner, did not enable continental EU members to forge ahead with a common immigration and asylum policy decided by majority vote. Germany, it turned out, is as reluctant as anyone to risk being outvoted in such matters.

The original reason for scheduling a treaty revision conference in 1996 was German (and Italian) dissatisfaction at the failure to agree a true political union in Maastricht as the counterpart to monetary union. But now Chancellor Helmut Kohl has apparently abandoned any ambition of that sort, deciding instead to stake everything on a single currency managed by a central bank untrammelled by any semblance of political accountability or any convincing mechanism for producing coherent economic policies. It seems a perverse and dangerous reversal of priorities.

Yet perhaps it is the small states, long the loudest advocates of a quasi-federal Europe, who have played the biggest part in blocking any development in that direction. They were unwilling either to renounce their right to national representation in a body (the Commission) whose very raison d'être is to represent the union as a whole, or to accept a redistribution of voting weights that would make the council more representative of people as opposed to states.

Those two issues, as well as the deeply contentious ones of the common agricultural policy and the structural funds, are thus left to be settled in tandem with the enlargement negotiations. It will be a miracle if the result is not to prolong the latter, probably to the point where would-be members begin seriously to question whether the EU is a club worth joining at all.

Off balance

Last month's White House-Congress agreement to balance the budget by the year 2002 was purely symbolic. The details were left to the congressional committees, as was the inevitable hard-bargaining. The Republican response has been disappointing. The proposals put forward by Congressman Bill Archer, chairman of the House Ways and Means Committee, are both unfair and fiscally irresponsible. The plan of the chairman of the Senate Finance Committee, Senator William Roth, is little better.

Mr Archer's plan grants a net tax cut of \$85bn over five years. Mr Archer claims that he wants to help middle income families. But the US Treasury estimates that 68 per cent of the tax cuts go to those in the top 20 per cent of the income distribution. The tax credit for families with children is designed to exclude the working poor, who are most in need of extra help. The college tax credit and the new interest-free IRA savings accounts will benefit only those who can afford to make such payments. Inheritance and capital gains tax cuts further advantage the well-off.

Mr Roth's plan is not much better. It trims the capital gains tax cut, but gives a bigger break on inheritance tax. The Treasury says that 60 per cent of the tax cuts still accrue to the top 20 per cent, while less than 13 per cent of the tax cut goes to the bottom 60 per cent.

Worse still, although the Archer plan might lead to a balanced budget in 2002, problems will re-emerge thereafter, because the impact of the tax cuts will be delayed. Reducing capital gains tax from 28 per cent to 20 per cent, for example, would swell revenue in the first years, as investors take profits on existing equity holdings. After 2002, however, the lower tax rate would reduce revenues.

Thus Republican proposals give tax cuts now, while delaying the budgetary crisis until later. Between 2002 and 2007 the Archer plan would leave a \$165bn gap in the budget. Between 2008 and 2017, the shortfall would be in excess of \$650bn, according to the Centre on Budget and Priorities, a Washington based think-tank. The Roth plan is little better.

President Clinton would like restoration of fiscal order to be a landmark of his presidency. This is why he has invested so much political capital in balancing the budget. But balancing the budget in just one year is hardly an historic achievement. If the Republicans fail to improve the final bill they send to the White House, Mr Clinton should exercise his veto. Without a more sustainable fiscal commitment, the balanced budget agreement is not worth the paper it is written upon.

After burn

The Monopolies and Mergers Commission has done well to settle the arguments which have divided BG and its regulator for more than a year. In its price control ruling, the MMC has rightly come down firmly on the side of Ofgas – but has left BG with just enough crumbs to stop it running away from the table.

The decision sets a stable framework for gas prices until the next review in 2002, clearing the ground for growing competition in the industry. It also removes uncertainty from BG, leaving it free to concentrate on other challenges, such as growing its international exploration. The government will be happy that a row with business has been resolved – and that gas bills are coming down.

The MMC's key ruling is to endorse Ofgas's decision to base the valuation of pipeline assets on BG's stock market value at flotation – instead of the book value, as has happened until now. This change brings gas broadly into line with the electricity and water industries, adding a welcome sense of consistency to the regime.

The ruling cuts BG's asset value for regulatory purposes from about £17bn to £11.6bn. Since the regulator's price controls are based on asset values, the prices BG charges for shipping gas will fall, and with them consumer prices.

The decision leaves BG with less surplus cash than before. It argued that it needed the money to invest in renovating pipelines. But MMC accepted Ofgas's argument that most investment will not be required for many years, so it is unfair to burden today's consumers and risky to give BG the funds so long before they are needed. In effect, the MMC ruled the UK would be best served by treating the pipeline monopoly as a low-risk low-return business rather than giving BG surplus cash to invest elsewhere.

However, the review raises questions about the regulatory regime. The system in which the MMC arbitrates in disputes between utilities and regulators worked in this case because both BG and Ofwat have accepted its report. BG would have been foolish to continue the fight when the new government nurses suspicions about the whole nature of profit-making in regulated industries. But the experience of Northern Ireland – where the electricity regulator earlier this year rejected an MMC report on pricing – exposed the regime's shortcomings. A solution could be to give the MMC a stronger role – and to make its rulings binding. With no other utility dispute on the MMC's agenda, Labour has time before it needs to tackle regulatory reform. But it should not wait too long.

Ripples on the mainland

China sees Hong Kong's return as righting an historical wrong and as a landmark on its march back to greatness, says **Tony Walker**

China's leaders could not be accused of understating the historical significance of the Hong Kong handover later this month, nor have they missed the opportunity to wring propaganda from the occasion.

The Chinese media juggernaut has been in overdrive for days, heralding an event whose importance in China's modern history is arguably matched only by the demise of the last imperial dynasty in 1911 and founding of the People's Republic on October 1, 1949.

Mr Li Lanqing, vice-premier, says the handover is of "great importance for the entire Chinese people and people of Hong Kong". He might have added that Hong Kong's return to mainland control will send ripples well beyond China itself, to overseas Chinese communities from Vladivostok to Tierra del Fuego and well beyond.

The event will be a watershed in China's resurrection from the "sick man of Asia" to a country once again aspiring to greatness. The handover is also linked inextricably with the rise of the Pacific as an economic powerhouse, fuelled in no small part by China's extraordinary growth and potential.

Since it opened its doors in the late 1970s to foreign investment and began reforming its Stalinist-era economic system, China's has been the world's fastest-growing leading economy. Growth has averaged 10 per cent for the past 17 years.

Mr Qi Pengfei, vice-dean of the Communist party history department at Peopla's University in Beijing, believes Hong Kong's return will both correct an historical wrong, and help underpin China's stirring revival.

From China's viewpoint the opium war of 1840 and the ceding in perpetuity of Hong Kong island to Britain in 1842 marked the start of tha nation's decline. The first opium war, prompted by Chinese destruction of a large quantity of the drug belonging to British traders, prompted a fierce reaction from Britain which condncted punitive raids along China's coast, occupying key locations.

"We talk about 5,000 years of Chinese civilisation, but the real decline only started recently," says Mr Qi. "During much of China's history the Chinese contributed a lot to civilisation, but once China's decline started there have been very few contributions."

Hong Kong, by contrast, a barren rock of little apparent value in 1841 and a British trading outpost in its early years of colonisation, has become a potent symbol of Chinese entrepreneurship. The mainland is about to reclaim its prize, and scant acknowledgement will be accorded Britain's contribution to Hong Kong's success.

Chinese historians, adept at navigating the shoals of contemporary events, have been gearing up for months to "interpret" the occasion in a way that casts China and its leaders in the most favourable light.

Mr Qi, who recently published *Sunrise-Sunset*, an account of Hong Kong's return to mainland control, leaves no doubt about his perceptions. "China's ultimate goal is to revive itself as a strong Asian civilisation and reunification is part of this grand scheme," he says.

Outsiders also share this view, although their conclusions tend to differ on the consequences for China itself. Chinese scbolars believe the event will strike a moral blow, hoistering Chinese self-esteem and facilitating China's continued march on to the world stage. Western academics, on the other hand, appear more interested in the impact of Hong Kong's return on China itsalf, politically, economically and socially.

Mr Kenneth Lieberthal, professor of political science at the University of Michigan and author of the recently published *Governing China from Revolution through Reform*, believes the "big story" over the next two decades will be Hong Kong's impact on China.

"I think you will see Hong Kong have a much bigger effect on China than expected," be says. "Reformers in China are bound to feel they can legitimately press for a system closer to that of Hong Kong. They will ask: 'wby sbould Hong Kong hava freedoms we can't enjoy'."

Chinese scholars, constrained by worries about appearing to endorse "capitalist" Hong Kong as a model for China, are more circumspect. But Mr Jiang Dachun, professor in the Institute of Modern History, Academy of Social Sciences in Beijing, concedes: "Hong Kong can be s very important experience for setting in order things at home."

Mr Qi says Hong Kong will "haavily influence" China positively in areas such as competitiveness, efficiency and tha tradition of the rule *of* law, as opposed to rule *by* law. There will also be negative influences, he says, emanating from Hong Kong's stridently materialist culture of "money-worship" and excessive consumerism.

For others, though, the handover will be largely symbolic. "We should not exaggerate the degree of impact of the event itself," says Mr Yu Yongding, director of the Research Centre for International Finance at the Institute of World Economics and Politics. "We have already experienced the impact of Hong Kong over the past 20 years."

But Hong Kong, as it has over the past several decades, will continue to make its presence felt both as a catalyst for change on the mainland itself and as an increasingly important hub for China's relations with the outside world.

Rather than becoming less significant as a mediating point for China's commercial relationships with the outside world, in favour of a resurgent Shanghai, Hong Kong seems set to assume even greater importance. The rush of mainland companies to Hong Kong in recent years underscores the trend.

Mr Zhang Yongjin, senior lecturer in politics at the University of Auckland and consultant to the Institute of World Economics and Politics, believes Hong Kong's real contribution to China lies in its value as a springboard for its commercial ambitions. "Looking to the future, China stands at the point of take-off," Mr Zhang says. "Hong Kong will certainly make great contributions to that take-off in all sorts of ways, including China's integration with the world economic system and also in its impact on economic development in China itself."

The handover also has clear implications for mainland ambitions to reclaim Taiwan, which it regards as a renegade province. Academics, however, do not see the "one country, two systems" formula that has been applied to Hong Kong as a model for Taiwan. China, they believe, will have to come up with a different formula which takes account of Taiwan's special characteristics.

Many are convinced that July 1 will profoundly change the way Beijing and Taipei relate to one another. "Previously, Taiwan could deal with Hong Kong without dealing with the mainland," says Mr Yong, director of tbe institute.

"But after the return of Hong Kong the Taiwanese will have to increase contacts with the mainland, and this will provide opportunities for mainlanders and Taiwanese to know eacb other better . . . to build confidence," says Mr Yong. "Hong Kong could even become a mediating point between the mainland and Taiwan."

Such calculations generally take as their starting point tbe assumption that the transition after the handover of Hong Kong will run relatively smoothly. But there are more pessimistic scenarios.

China itself could undergo upbeaval sucb as that which occurred in 1989 wben pro-democracy demonstrations threatened to tear the country apart. A repeat of such an episode, in which Hong Kong citizens became involved, would invite intervention by Beijing, seriously endangering the "one country, two systems" formula.

A less dramatic threat to the Hong Kong-mainland partnership might involve ardent pro-democracy activists in Hong Kong pushing beyond what the system can bear. This would inevitably invite reaction from Beijing, especially if mainland dissidents became involved.

Other negative outcomes might involve policy miscalculations by Beijing, which are likely to be based on a pletbora of advice from mainland officials in Hong Kong. These might include representatives of such organisations as the New China Newsagency, the Ministry of Foreign Affairs, tbe People's Liberation Army, state security and the Hong Kong-Macao Affairs Office of State Council: not to mention self-serving interventions from some of Hong Kong's billionaires.

In their enthusiasm for the return of Hong Kong, the Chinese tend not to reflect on the possible negative consequences for their own country and the world. It is feared by some, for example, that a triumphalist China might rub raw its delicate relations with the west.

Chinese propaganda is coloured by strongly nationalist sentiment, from films such as the blockbuster *The Opium War* portraying beroic orientals confronting demonic British colonialists to triumpbalist editoriala in People's Daily, the Communist party newspaper.

But Mr Qi from the People's University believes that western fears of a resurgence of destructive Chinese xenophobla are exaggerated. He decries fasbionable western notions of the inevitability of a clash of civilisations between east and west.

"If China, with its 1.2bn people, remains poor, desolate, impoverished, and cbaotic this would pose a more dangerous threat," he says. "But once China becomes strong it will become more self-assured and this will enhance mutual exchanges with the west."

· OBSERVER ·

Dial Stet for soccer

■ Guido Rossi has two big deals on his plate. As chairman of Stet-Telecom Italia, he's fixing up a strategic alliance with AT&T of the US and hopes to privatise the Italian telecoms group in the autumn. As a fan of Inter Milan and a friend of its owner Massimo Moratti, ha's taking a hand in the soccer club's multi-billion-lire bid to buy Ronaldo, Barcelona's goal-grabbing Brazilian superstar.

Cigar-smoking Rossi seems much more excited by football than telecoms. A graduate of Harvard law school, who has by turns been an independent communist senator and chairman of Italy's stock market watchdog Consob, the government sent him into Stet this year to speed its privatisation. He says he's doing the job for nothing and wants to leave the dugout after the float to pursue his other extensive business and legal interests – and nothing is closer to his heart than the blue and black stripes of Inter Milan.

Capturing Ronaldo will help prepare Inter for flotation. Rossi believes Inter could become one of the most widely held stocks on the Italian market – probably even more than Stet, which has a lot fewer fans. Does this mean that sport rather than telecoms is the business of the future?

Net price

■ Inter may end up paying \$40m for Ronaldo, but that'll soon look cheap judging by the way the price of footballers in Spain is rising. Yesterday, league champions Real Madrid put a \$100m tag on 24-year-old Brazilian defender Roberto Carlos, a sum as mind-bending as the player's swerving free-kicks. It's just a couple of years since top whack for a player was under \$15m. If Spain includes football in its inflation index, it'll miss European monetary union by a mile.

Cuddly clincher

■ Forget the old arguments about whether Washington should renew China's most favoured nation trade status. Away with worthy talk of human rights, dubious arms sales, trade deficits and alleged Beijing contributions to US political campaigns.

US legislators have been confronted with the clinching argument for extending MFN to China – it's bug-eyed, it's furry, it's the "Tickle Me Elmo" range of stuffed toy animals which were such a hit with little Americans at Christmas that much parental anguish and queneing time went into acquiring them.

The US National Retail Federation says that if Congress overturns MFN, a 90 per cent tariff would be slapped on many Chinese-made toys. This would nearly double the price of the cute cuddlies, putting them out of tha reach of many families. So it's MFN for China or tears before bedtime. That should sort out the MFN issue for this year.

Thundering herd

■ It's never been a good idea to get on the wrong side of a Texan rancher, so you have to feel some sympathy for the US Humane Society and TV chat show hostess Oprah Winfrey, who've irked a whole dang prairie of them.

A hombre from the humans society went on to the Oprah Winfrey show last year and said something about the beef industry which Observer won't repeat, not wanting to invite a stampede of irritated cowmen. Suffice to say that Winfrey told the world she wouldn't be eating any more burgers. That very day, cattle prices began to fall and lost 10 per cent within a month.

Things were already pretty bad homa on the range, what with high feed prices, oversupply and all, and the show made the good ol' ranchers madder than a bag of rattlesnakes. A posse of them has just issued writs under a 1995 Texas law that protects agricultural products from slander. Watch for the shootout at the OK courtroom.

Tax twist

■ Sydney hoteliers are livid about the New South Wales government's planned 10 per cent "bed tax" on hotels in the run-up to the 2000 Olympic Games. Now state treasurer Michael Egan has upset another business sector: he says the tax will also apply to brothels, though only to their "accommodation component". It's up to tax inspectors to work that one out, he says, adding that they would have "a little bit of spice added to their work".

Toreador's trial

■ A bullfighter from Nimes in southern France was yesterday placed under investigation on charges of cruelty to animals over an illegal bullfight, in which four of the horned beasts died. His lawyer says he didn't taka part. Apparently the fight was illegal because it was held in private – if it happens in public, it isn't cruel.

The Financial Times

100 years ago

Trade In Venezuela
The Consular report dealing with the trade of Venezuela is of none too helpful a nature. The failure of the coffee crop disorganised trade during 1896, and with the low prices prevailing the future looks none too bright. There seems very little initiative in regard to any other industry to make up for this loss. British trade with Venezuela shows a slight improvement, but the leading foreign business houses are German, and consequently German trade has every encouragement. There does not seem much prospect of improvement during 1897, the elections being a disturbing factor looming in the future.

50 years ago

Marshall Plan Talks
Paris, 18th June. Britain and France to-day sent an official invitation to Russia to participate in examining the Marshall Plan for aid to Europe, the French Government announced here. M. Pierre Bourdan, the Minister for Information, said the proposed examination would be conducted by a European Economic Commission. He could not say whether this would be a special commission or whether the existing United Nations Commission would be used.

FINANCIAL TIMES
Thursday June 19 1997

Surge in Japan's trade surplus sparks US fears

By William Dawkins in Tokyo

Japan's trade surplus more than tripled to Y738.27bn ($6.4bn) last month, sparking fears of fresh tensions with the US.

Ms Charlene Barshefsky, the US trade representative, said the surplus was disturbing and reiterated the US's expectation that domestic demand growth, not exports, would lead Japan's economic recovery.

But Mr Jeffrey Frankel, a member of the White House Council of Economic Advisers, said the US would not attack Japan over trade policy at the Denver summit of the Group of Seven industrialised nations which begins tomorrow.

The customs-cleared trade balance rose by 222 per cent compared with the same month last year, the second monthly rise in a row and well above market expectations.

Mr Yasuo Matsushita, governor of the Bank of Japan, warned that it was likely to go on rising in the short term, but that domestic economic recovery and a strong yen could later constrain the surplus.

In May, Japan had substantially larger surpluses with its main trading partners. The surplus with the US almost doubled to Y322.87bn over the same period. Its surplus with the EU more than tripled to Y206.5bn and the surplus with Asian countries rose by 73 per cent to Y578.02bn. In response, the dollar weakened slightly to just above Y113.

Japanese finance ministry officials said the rise in the trade balance was temporary, partly caused by the 15 per cent decline of the yen over the year to May, which has rendered Japanese-made goods cheaper abroad. Another factor was a short-term decline in demand for imports as a result of a rise in sales tax on April 1. There has been a backlash against a tax-beating shopping spree early in the year.

The Tokyo government has come under pressure from the US to support domestic growth and increase demand for imports. But Mr Seiroku Kajiyama, the chief cabinet secretary, yesterday said the higher surplus might help the Japanese economy by supporting the yen.

Exports rose by 20.5 per cent, led by a 43.2 per cent rise in foreign car sales, a performance likely to annoy US competitors. Imports rose by 6 per cent, reflecting the weakness of consumer demand in the wake of the rise in sales tax. This has caused one Japanese carmaker to consider cutting domestic production.

Private sector economists doubt the government's claim that the surplus will soon recede. "It will take at least six to nine months to see Japan's trade surplus declining again," said Ms Mineko Sasaki-Smith, chief economist at Credit Suisse First Boston in Tokyo.

Honda output, Page 14

Thailand's markets braced for minister's resignation

By Ted Bardacke in Bangkok

Mr Amnuay Viravan, Thailand's finance minister, will submit his resignation today in a move likely to throw the country's financial markets into further disarray.

The decision will be the biggest political challenge yet to the six-month-old government of General Chavalit Yongchaiyudh, the prime minister.

A humiliating defeat earlier this week over fiscal policy made it clear that Mr Amnuay lacked the political clout to push through tough measures, which are needed to clean up the country's ailing financial system and fend off speculation against the Thai baht.

Mr Amnuay, a non-MP and former president of Bangkok Bank, was brought into the government by Gen Chavalit to shore up investor confidence in Thailand's economy.

But rivals in the six-party coalition government reversed Mr Amnuay's plan to raise excise taxes on motorcycles, granite, marble and batteries to reduce the country's expected budget deficit.

Yesterday Mr Amnuay said through an aide that he "would hand his resignation letter to the prime minister tomorrow".

Rumours of his resignation sent the Thai stock market reeling yesterday. It closed down 3 per cent at its lowest level since 1988, while the baht slumped in domestic and foreign markets.

However, the finance minister's popularity with foreign investors has waned because of the belief that the government is not being decisive enough on economic policy.

Gen Chavalit may have difficulty replacing Mr Amnuay with a non-politician, although Mr Olarn Chaiprawat, Siam Commercial Bank's president, has been mentioned as a candidate.

The General may be forced to turn to allies in the coalition, particularly ministers from the second largest coalition party, Chart Pattana, who had been Mr Amnuay's most vocal detractors.

This would lead to a full-scale cabinet reshuffle in which Mr Narongchai Akrasanee, the commerce minister who is a non-MP and ally of Mr Amnuay, could also lose his job.

Chart Pattana, led by Mr Chatichai Choonhavan, a former prime minister, is seen as having fewer ties with the financial sector than Mr Amnuay or the opposition Democrat party.

That leads some analysts to believe it would be more able to implement a painful but necessary restructuring of the financial system.

THE LEX COLUMN

Turkish traumas

In theory, the departure of Mr Necmettin Erbakan, Turkey's Islamist prime minister, is just what the financial markets needed. The threat of more militant Islamic policy had encouraged nervousness, as did the threatening response from tha army. His weak coalition failed to implement the tough measures necessary to rein in an inflation rate of close to 80 per cent. Political change could hardly be for the worse.

But it may not be much for the better. If Mrs Tansu Çiller regains power it will be by the thinnest margin, needing continued support from the Islamists and other independent parties. It will be the same government with a different figurehead. Tensions with the military will remain. If she loses a confidence vote – a definite possibility – power should go to the more investor-friendly Mr Mesut Yilmaz. But the opposition parties are in disarray, providing e weak power base. Mayhe a temporary technocratic government could emerge, which could at least achieve electoral reforms and ensure subsequent elections produced more stable governments. But that is a long shot.

The stock market is up 20 per cent this year in dollar terms and is at an attractive nine times forecast dollar-denominated earnings. Turkey has some quality companies with entrepreneurial flair, although accounting quality and inflation argue for a risk discount. And with political uncertainty and rising interest rates continuing, investors would do well to wait.

FTSE Eurotrack 200: 2441.3 (-18.1)

BG

Game, set and match to Britain's gas regulator. Of course there are crumbs of comfort for BG in yesterday's 400-page Monopolies and Mergers Commission report. But the company's objective all along was to get the regulator's plans substantially watered down. And it failed. The MMC backed the regulator's central proposal, over depreciation on BG's asset basa. And although it relaxed the regulator's aggressive cost assumptions, this is offset by other changes; the result is a set of price controls at least as tough as those the regulator was originally asking for.

Moreover, BG would love investors to think all the regulatory issues have at least been concinsively clarified. But no such luck. As the regulator made plain, the treatment of non-regulated assets – an issue which could knock a further £2bn off BG's assets – has been left for another day.

So was it a disastrous blunder to gamhle on the MMC? Certainly those responsible for the decision – Mr Richard Giordano, BG chairman, and Mr Philip Rogerson, his deputy – were conspicuously invisible yesterday. Still, it is unfair to judge them with hindsight. The MMC could easily have produced a cushier report, as for instance it recently did on airports operator BAA. And all BG has really lost by going to the MMC is time and face.

But it remains striking that such a grim result should have been so warmly greeted by the stock market. One explanation lies in a raised dividend forecast from the company's broker. But another is stability. The MMC's conclusions may be grim, the argument runs, bnt at least investors can get on and value the company on fundamentals. And these remain attractive. The demerger has helpfully focused attention on BG's non-regulated businesses; many now reckon these are worth £4bn or so. Add the £11.6bn on which the MMC is allowing returns and subtract debt – in theory, BG should be worth around £12bn. Yet its market capitalisation is less than £10bn.

This is persuasive logic – the more so thanks to recent months' rally in utility share prices, bringing many much closer into lina with theoretical asset values. Moreover BG should have good news in store: the review of its upstream business, and its promise to rethink its undergeared balance sheet, have the potential to unlock real value. Some discount for residual regulatory risk is certainly justified, but the current value gap looks overdone.

Corporate taxation

How might Britain's Labour government justify its planned raid on pension funds' dividend tax credits? The honest approach would be to say that, with tax-raising, it is best to pluck the geese that hiss the least. There is a risk, though, that Labour will try to dress up a £5bn a year increase in corporate taxes as pro-business. Not only would the move do little if anything to increase industry's cost of capital, the argument might run; by encouraging companies to retain earnings rather than pay out dividends it could actually boost investment.

Such a ootioo could be dismissed as empty rhetoric if it was oot backed by the respected Institute for Fiscal Studies. According to the IFS, business has three sources of capital: deht, retained earnings and new equity. Raiding the tax credit would have no effect on the cost of using deht or retained earnings. True, it would increase the cost of raising new equity. But, since new equity is a pretty small portion (perhaps 10 per cent) of industry's total capital requirements, ths impact on the weighted cost of capital would be minimal.

The argument is seductive but flawed. The right distinction to make is between paying dividends and retaining earnings rather than between new and existing equity. The current tax system does give an incsntive to pay dividends rather than retain earnings. But that applles to existing as well as new equity. To argue that it does not relies on the false assumption thet existing equity is trapped in a business for ever. Look at it another way. If Labour does cut the credit, further falls in share prices – on top of the drop so far this week – are probably in store. And lower share prices would mean companies were paying a higher yield on both existing and new equity. The net increase to industry's cost of capital would be perhaps one-third of a percentage point.

Britain's corporate tax system cannot of course be defended from a purist perspective. But if the tax credit is to be raided, industry should insist on countervailing cuts in other corporate taxes. Now is the time to hiss.

See additional Lex comment on UK retail sales, Page 18

Nigerian debt arrears 'up $10bn over past 3 years'

By Michael Holman in London and Antony Goldman in Lagos

Nigeria's military government has accumulated $10bn in arrears on debt repayments to western creditors over the past three years, while failing to account for earnings from oil exports, according to a World Bank report.

"Pervasive mismanagement robs the economy of resources that could be used for growth and poverty reduction," says the bank in an economic analysis drawn up last month.

The report, prepared for a donors' meeting in Washington last week, puts Nigeria's external debt at $34.7bn, including $17.4bn in arrears.

Although exports – mainly oil – rose to $14.1bn in 1996, "the government chose to limit debt service payments and thus accumulated an additional $3.5bn in new arrears", says the report. In 1994 debt arrears were $2.9bn, and went up a further $3.6bn in 1995.

Debt owed to the Paris Club of official creditors amounts to $19.1bn. Britain, the leading creditor, is owed $5bn, including arrears of $3bn, Germany $3.8bn, Japan $3bn and France $2.8bn.

A World Bank team is in Nigeria, but both the bank and the International Monetary Fund have, in effect, suspended operations there.

The bank credits the administration of General Sani Abacha, the president, with "some modest progress on improving transparency and accountability", but it makes clear that public sector corruption remains pervasive.

Commonwealth leaders are likely to take the report into account at their summit in Edinburgh in October, when they will decide whether to continue Nigeria's suspension on human rights grounds from the organisation.

The report says accounts and spending plans of large state projects "remain opaque", while "oil revenues cannot be fully accounted for". The state-owned oil sector produces 2m barrels a day, accounting for more than 90 per cent of foreign exchange earnings. Bank officials privately suspect the equivalent of 200,000 barrels a day is diverted into accounts controlled by the military.

The report calculates that Nigeria's gross national product per capita has declined from $1,160 in 1980, at the peak of the country's oil boom, to $240 in 1996, "placing Nigeria among the 20 poorest countries worldwide".

Europe looks to Jospin

Continued from Page 1

3 per cent of gross domestic product.

But Jospin may use his maiden parliamentary speech to indicate that he will delay implementation of promises to raise spending on education and housing and to cut indirect taxes until 1998 or 1999.

A senior financial policymaker cautioned thet markets would take amiss any "neo-Keynesian" measures to pump op consumptioo and inject demand into the sconomy. Though France's minimum wage is reviewed every July, Mr Jospin's Communist allies are pushing for a big increase this year.

A first sign that the leftwing government is relaxing its predecessor's squeeze on the public sector came this week when trade union leaders claimed they had won assurances that no more civil service jobs would be axed.

Mr Jospin is insisting his new majority of Socialists, Communists and Greens support his statement in a confidence motion todayThe speech will prepare the way for any alterations to the 1997 budget, and for the 1998 draft budget.

Fighter link

Continued from Page 1

an early lead as BAe's military aircraft division favoured backing the Boeing design. But fears over the reaction of BAe's Airbus partners to such a move, and the possibility of a long term strategic alliance with Lockheed, finally swung the decision.

Large scale work on the JSF for BAe is not guaranteed because although the US Air Force likes the Lockheed fighter design, the Marines and the Pentagon are thought to favour some of the technologies being used by Boeing.

FT WEATHER GUIDE

Europe today

Rain and showers are expected over the UK and north-western France. Later in the day, the Benelux will also have showers. Germany will be dry with sunny periods.

Central and southern France will have a mix of sunshine and cloud. It will be sunny over the Iberian peninsula, but thunderstorms are still likely over north-east Spain and the Pyrenees.

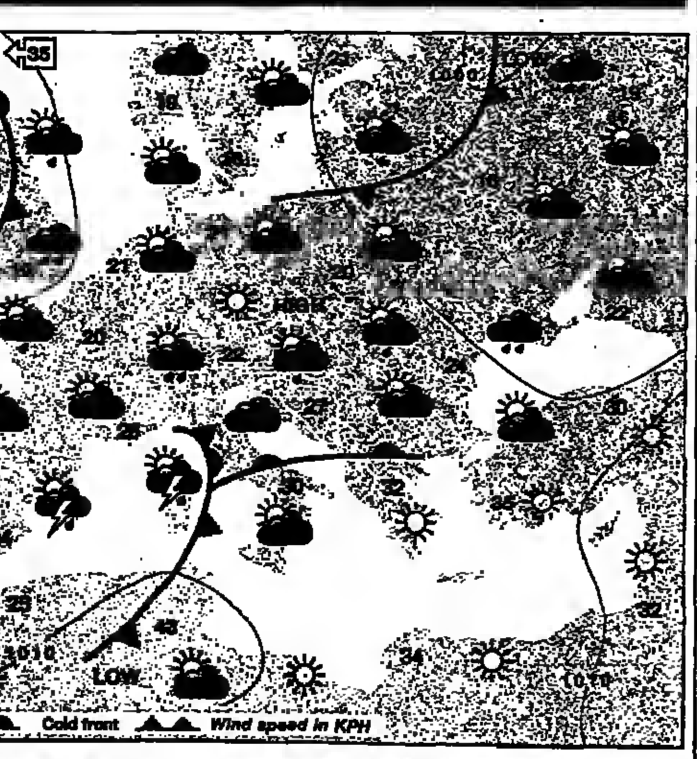
Northern Italy and the Alps will have showers, but central Italy will be mostly cloudy and dry.

Greece and southern Turkey will have plenty of sunshine. The northern Balkans will have some showers and the northern Black Sea area will have some rain.

Five-day forecast

The northern part of Europe will continue to be unsettled with cloud, rain and a fresh westerly to south-westerly wind.

Low pressure will bring plenty of cloud and some rain in Russia.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
Abu Dhabi	sun 41	Beijing	shower 29	Caracas	fair 32	Faro	sun 26	Madrid	sun 27	Rangoon	shower 31
Accra	fair 29	Belfast	shower 17	Cardiff	rain 16	Frankfurt	fair 22	Majorca	thund 25	Reykjavik	rain 14
Algiers	fair 30	Belgrade	fair 26	Casablanca	fair 24	Geneva	fair 25	Malta	sun 32	Rio	cloudy 24
Amsterdam	rain 20	Berlin	fair 20	Chicago	fair 27	Gibraltar	fair 28	Manchester	rain 17	Rome	cloudy 29
Athens	sun 36	Bermuda	shower 28	Cologne	fair 22	Glasgow	shower 17	Manila	shower 35	S. Frsco	sun 24
Atlanta	shower 30	Bogota	cloudy 20	Dakar	fair 31	Hamburg	fair 19	Melbourne	sun 14	Seoul	fair 28
B. Aires	fair 14	Bombay	rain 33	Dallas	fair 35	Helsinki	cloudy 21	Mexico City	fair 30	Singapore	shower 33
B.ham	rain 18	Brussels	cloudy 21	Delhi	fair 33	Hong Kong	rain 32	Miami	cloudy 33	Stockholm	cloudy 20
Bangkok	fair 34	Budapest	fair 24	Dubai	sun 41	Honolulu	fair 31	Milan	shower 24	Strasbourg	fair 22
Barcelona	thund 23	C.hagen	cloudy 18	Dublin	shower 17	Istanbul	fair 31	Montreal	cloudy 26	Sydney	shower 16
		Cairo	sun 34	Dubrovnik	cloudy 28	Jakarta	shower 33	Moscow	shower 17	Tangier	sun 27
		Cape Town	fair 17	Edinburgh	shower 17	Jersey	shower 16	Munich	sun 20	Tel Aviv	sun 32
						Karachi	fair 38	Nairobi	thund 25	Tokyo	rain 26
						Kuwait	sun 45	Naples	cloudy 31	Toronto	sun 24
						L. Angeles	sun 23	Nassau	fair 32	Vancouver	cloudy 19
						Las Palmas	sun 25	New York	shower 28	Venice	cloudy 24
						Lima	sun 27	Nice	cloudy 27	Vienna	cloudy 23
						Lisbon	sun 22	Nicosia	sun 33	Warsaw	cloudy 15
						London	rain 19	Oslo	cloudy 19	Washington	fair 31
						Lux.bourg	fair 18	Paris	shower 21	Wellington	shower 14
						Lyon	fair 25	Perth	rain 20	Winnipeg	rain 20
						Madeira	sun 21	Prague	fair 20	Zurich	cloudy 20

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Moulinex back in the black

Moulinex, the French household appliance group in which Mr George Soros is a leading shareholder, has returned to the black after five years of losses. The company reported a profit of FFr29m ($4.97m) for the year to March, up from a FFr702m loss previously. Page 17

Guinness/GrandMet merger in spotlight
Regulators in the US are expected to announce an investigation into the £23.8bn ($38.8bn) merger between Grand Metropolitan and Guinness that would create the world's leading wines and spirits group. The European Commission is likely to launch a parallel inquiry. Page 18

Westinghouse considers $3bn disposal
Westinghouse Electric, the US media and industrial group, is studying plans to sell its refrigerated transport business, Thermo King, in a disposal that could raise up to $3bn. Page 16

Gencor to merge its nickel assets
South Africa's Gencor group announced it would merge its nickel assets with QNI, the listed Australian company which operates the Yabulu refinery in Queensland, to create the world's fourth-largest nickel producer. Page 15

Gazprom attacks government planning
Gazprom, Russia's gas monopoly, which is under pressure to pay an outstanding tax bill, blamed poor government planning for the non-payment crisis afflicting the country. Page 17

Global energy demand up 3%
Global energy demand grew by 3 per cent in 1996, the highest rate of growth since 1988, according to a review by British Petroleum. It said 1996 was "an exceptionally strong year for energy consumption, primarily due to an upturn in the economic cycle and unusually cold weather in the northern hemisphere". Page 22

Charterhouse chairman to stand down
Victor Blank, chairman of the merchant bank Charterhouse, who is among the City of London's best-known figures, is stepping down after 16 years. Page 18

Companies in this issue

Market Statistics — http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BMW	1429	+	29
Ind Werke	504.5	+	21.5
Volkswagen	1219.8	+	17.8
Falls			
GEA Prf	675	−	30
Holzmann	493	−	13
Kali & Salz	171	−	12
NEW YORK ($)			
Rises			
Aames Finl	18¼	+	1½
Auto Comm	23⅝	+	1⅞
Pep Boys	33¼	+	2⅝
Falls			
Appld Mgntc	23½	−	2¾
Olin Corp	38	−	2¼
Seagate Tech	36½	−	5¼
LONDON (Pence)			
Rises			
Hercules Prop	205	+	15
Wood (JD)	148	+	15
Falls			
BSkyB	521½	−	45
Grainger Tst	286½	−	15
Mecoak	393½	−	32
Micro Focus	1837½	−	45
TORONTO (C$)			
Rises			
Abacan Res	3.62	+	0.5
Intermetco	12.55	+	1.6
Technilab	9.4	+	0.9
Falls			
Beamscope Can	7.6	−	1.4
Namibian Min	5.4	−	0.95
Plaintree Sys	4.5	−	0.6

PARIS (FFr)			
Rises			
Air Liquide	942	+	13
BIC	960	+	10
Technip	639	+	26
Falls			
Christn Dior	927	−	14
Gaillbert	881	−	19
Pathe	1265	−	83
TOKYO (Yen)			
Rises			
Dai Nip Ink	520	+	21
Hitachi Cble	955	+	31
Falls			
Daiwa Sec	890	−	18
Koito Mnfl	675	−	29
Mitsui Tr&Bk	846	−	28
Yaohan Japan	241	−	19
HONG KONG (HK$)			
Rises			
Cathay Pac	13.25	+	0.5
Harbour Cntre	12.75	+	1.05
Falls			
Cheung Kong	73.0	−	1.0
Gt Eagle	24.9	−	0.7
HSBC Hldgs	224	−	5.0
TVB	32.2	−	1.2
BANGKOK (Baht)			
Rises			
Jack Chia	13.0	+	1.0
PCM Precast	9.0	+	0.8
Phatra Ins	174.0	+	15.0
Falls			
KCE Elec	87.5	−	7.5
Made of Mds	63.0	−	7.0
Siam Pulp	39.5	−	4.25

New York and Toronto prices at 12.30pm.

$7bn move will break the legacy of South Africa's isolation

Gencor spells out details of London base metals listing

By Mark Ashurst in Johannesburg and Michael Peel in London

Gencor, the mining group based in Johannesburg, yesterday shook off the legacy of South Africa's isolation when it said it would list its base metals operations on the London Stock Exchange.

The move - which has been approved by the South African government - will create a new FTSE 100 company with a market capitalisation of about $7bn.

The company will adopt the name of Billiton, the aluminium producer which Gencor bought from Royal Dutch Shell in 1994 for $1.2bn.

Billiton would also merge with QNI, the Australian nickel group, to create the world's fourth biggest nickel producer.

Mr Brian Gilbertson, Gencor chairman, said the move would free Billiton from the constraints imposed by exchange controls, which have frustrated attempts by South African mining groups to diversify internationally.

The listing would raise about $1bn, which he described as "three or four times the amount that would be possible for a South African company".

This would follow a demerger of the group's base metals interests from its platinum and gold mining businesses, which would continue to trade as Gencor. "The two companies are going their separate ways," Mr Gilbertson said.

Mr Mick Davis, finance director, said that for several years the demerger had been considered as a way to improve Gencor group's focus.

"Now one [company] is a focused metal producer based in South Africa. One [company] is a London-based diversified mining company with a listing on the London stock exchange and consequently with access to international capital markets."

The merged nickel interests would have a market capitalisation of about $1.7bn. Billiton would hold 56 per cent of the merged group, which would include a 99 per cent stake in Colombia's Cerro Matosa nickel mine.

Cash from the listing would fund the next phase of its expansion, beginning with new capital projects in Southern Africa and Australia.

Within two months Billiton is expected to confirm its plan to build a new aluminium smelter in the Mozambican capital Maputo.

The group is also considering projects in Brazil, Indonesia and Venezuela. Billiton would issue new paper to acquire the group's aluminium, coal, mineral sands, nickel, steel and ferro-alloy interests from Gencor.

These include significant South African interests, in particular Alusaf, one of the world's biggest aluminium smelters, and a 50 per cent stake in Richards Bay Minerals, the world's lowest-cost producer of titanium minerals.

Shareholders will get new Billiton shares on a pro-rata basis, and would be left with shares in both groups. Billiton would take up a secondary listing in Johannesburg.

The world stage, Page 15

Finance director Mick Davis said the demerger of Gencor's base metals interests from its platinum and gold mining businesses had been considered for several years Picture: Brendan Corr

Heavy demand for shares in Bank Handlowy

By Christopher Bobinski in Warsaw

An initial public offering in Bank Handlowy, one of Poland's largest banks, has been heavily oversubscribed and institutional investors are set to receive only six shares for every 100 ordered.

The IPO, Poland's biggest international issue to date, values Bank Handlowy at about $1bn.

Schroders, the bank which advised the treasury on the IPO, said 31 per cent of institutional demand came from UK-based investors and 26 per cent from the US. The portion of the issue allocated to institutions was 17 times subscribed. Demand amounted to $3.7bn.

The domestic retail tranche was subscribed 3.7 times, with retail investors receiving 35 shares for every 100 ordered.

The strength of demand means BH's three core investors – JP Morgan, Zurich Insurance and Swedbank – will see their allocation reduced from 30 per cent to 24 per cent of the fully diluted capital. The difference will go to local retail investors.

Local investors will be taking 18.9m shares – equivalent to a 20 per cent stake in BH.

Mr Cezary Stypulkowski, the bank's chief executive, yesterday said BH's move into the private sector would allow it to prepare for its role as a European bank.

Poland expects to start talks on joining the European Union next year. Money from the EU's Phare programme and the British Know How Fund have helped finance the BH privatisation.

The success of the offer augurs well for the sale of KGHM Polska Miedz, Poland's integrated copper ore producer. This offer is priced on June 28 with analysts expecting some of the demand for BH to spill over to the industrial conglomerate, which produces 3.5 per cent of the world's copper.

In a parallel move which also favours the local market, the treasury has decided that Global Depositary Receipts – paper listed in overseas markets which trades in lieu of shares – will cover 3.9m shares, representing 4 per cent of BH's fully diluted capital.

Bakun dam rights issue scrapped

Malaysian project suffers fresh blow as $1.2bn deal founders

By James Kynge in Kuala Lumpur

The financing for Malaysia's Bakun hydroelectric dam, one of south-east Asia's most significant infrastructure projects, suffered another setback yesterday as a planned M$3bn (US$1.2bn) rights issue to help fund it was scrapped.

Observers said the move reflected unease among investors over the M$13.6bn scheme only months before Bakun Hydroelectric, which will operate the dam, is due to be listed in Kuala Lumpur.

They added that the dam's main institutional backers, most of which have links with the government, wanted to limit their exposure to the project and were disinclined to subscribe to the issue.

The 2,400MW project, for which the lead contractor is ABB, the Swiss-Swedish engineering group, is supported by Dr Mahathir Mohamad, Malaysia's prime minister, who has called it a "national project".

But potential investors have become nervous in recent months as stock market values have declined. They regard the dam's projected 12 per cent return on equity as too low and have also been alienated because the first operating revenue is not due until 2003.

Mr Ting Pek Khiing, the Malaysian tycoon organising the project, blamed negative media and analysts' reports for its difficulties.

The one-for-one rights issue of 1.5bn shares had been due about a year after Bakun Hydroelectric's listing, which Mr Ting yesterday indicated has been postponed from the end of July to "sometime in August".

Mr Ting was persuaded to drop plans for the rights issue after it became clear that investors regarded it as a disincentive to subscribe to the Bakun initial public offering. He dismissed concerns that the project might be called off.

"The IPO, whether it is over-subscribed or undersubscribed, cannot stop the Bakun project going on," he said.

Mr Ting is believed to be stretched after he had to buy the lion's share of a M$1.46bn rights issue this month in Ekran, his flagship company, which is building Bakun. The issue was 63 per cent undersubscribed. The proceeds were intended to buy a 32 per cent controlling stake in Bakun.

Asked how he would pay for his share of the Ekran issue, he said: "That is a very rude question to ask. This is a private matter." He also joked: "I would steal from the bank. Rob a bank."

He did not give details of how the M$3bn in the forfeited rights issue would be raised but analysts said bank borrowing was the most likely source.

Zuckerman flotation underlines turn in US real estate

By John Labate in New York

Mr Mort Zuckerman, the US media baron, yesterday raised nearly $800m for Boston Properties, his real estate development company, marking a successful debut for one of the largest companies of its kind to come to market.

Mr Zuckerman, best known as the outspoken publisher of US publications including US News and World Report and the New York Daily News, is the latest in a series of prominent developers who have taken advantage of a surge in popularity for real estate investment trusts (Reits).

These companies, which enjoy a special tax status in the US, have made a strong comeback from the real estate collapse of the late 1980s to become one of the US stock market's best-performing sectors.

Mr Zuckerman, who is chairman of Boston Properties, holds 22 per cent of the company, which yesterday was worth $240m. He founded it in 1970 with partner Edward Linde, who will stay on as chief executive and president.

The company was priced at $25 a share and was trading at $26⅝ by early afternoon in New York, reflecting moderate enthusiasm for one of the biggest initial public offerings on Wall Street this year. Some 31.4m shares were offered, accounting for 63 per cent of total capitalisation.

Known for 75 high-quality office properties scattered in and around Boston, New York, and Washington, DC, the company has recently begun an aggressive expansion.

"They have a strong management team and will be successful as a Reit, no question," said Jim Sullivan of Green Street Advisers of California. He added that the shares, at more than $26, appeared to be trading at a premium.

Some analysts have also expressed concern about Boston Property's highly leveraged balance sheet. The company's debt-to-equity ratio is near 37 per cent, much higher than other office Reits which tend to be in the low-to-mid 20 per cent range.

As office rents have risen, many Reits have begun to develop their own properties rather than acquire buildings. That has required more financing from capital markets and an increasing volume of secondary offerings from such companies this year.

Dai-Ichi Kangyo barred by Japan from bond sales

Bank may face further steps as Tokyo acts on scandals

By Gillian Tett in Tokyo

Dai-Ichi Kangyo, one of Japan's largest banks, was suspended yesterday from taking part in auctions of Japanese government bonds because of its role in recent financial scandals.

The ban, which also bars DKB from underwriting government – and government-backed – paper, is the first ever imposed against a Japanese bank.

It comes amid increasing determination by the government to clamp down publicly on scandal ahead of its planned "Big Bang" financial deregulation.

Earlier this week the Japanese parliament shifted responsibility for inspection of financial institutions away from the ministry of finance to a new body that will be answerable to the cabinet.

The Nomura securities group was recently excluded from participating in auctions of Japanese government bonds (JGBs) in a similar scandal – for which the government is preparing to impose further penalties.

DKB's exclusion from JGB auctions yesterday raised expectations that it, too, could face added penalties.

An official investigation is expected to be completed soon, possibly by the end of this month.

The scandal at DKB, Japan's second largest bank in terms of deposits, centres on allegations that it made unsecured loans to corporate racketeers, known as *sokaiya*, who have traditionally demanded payments from companies in exchange for not disrupting their shareholders' meetings.

The investigation has already led to the arrests of 10 current and former executives, including Mr Ichiro Fujita, DKB vice president, who was arrested last Friday and has since resigned.

The scandal has also increased the so-called "Japan premium" in the funding markets, forcing DKB to pay more than European and US banks for the money it borrows.

Earlier this week DKB was paying $\frac{1}{16}$ of a point more for one-month eurodollar deposits than leading Western banking groups, compared with ⅛ last week.

Yesterday's ban applies to government paper of all maturities and begins with DKB's exclusion next week from the next major auction of 10-year bonds. Officials said that the suspension would last until the ministry decides on further administrative penalties.

DKB has traditionally been behind only Nomura Securities in its underwriting of government bonds. The bank derives most of its profits from its lending business, however, so the ban is not expected to dent profits significantly – but more severe government penalties could hurt, analysts say.

COMPANIES AND FINANCE: ASIA-PACIFIC

Red chips poised for bank deals

By John Ridding in Hong Kong

Shares in China Everbright IHD-Pacific, a Hong Kong subsidiary of China's state council, rose almost 40 per cent yesterday after the company announced funding plans for its HK$2.4bn (US$310m) purchase of a 20 per cent stake in Everbright Bank of China.

The deal is the latest corporate activity by "red chips" – Hong Kong-listed subsidiaries of mainland enterprises or government departments.

It came amid reports that China Resources Enterprise, the Hong Kong investment arm of China's foreign trade ministry, will pay HK$2bn for a controlling stake in HKCB Bank after a complex share restructuring with its parent group and Lippo of Indonesia.

Both deals mark a move by red chips into financial services. In the case of Everbright Bank, it gives international investors access to the tightly regulated mainland banking sector.

The announcements fuelled investor interest in the red chip sector, driving shares of China Everbright IHD-Pacific up HK$4.65 to HK$17.25.

However, they also coincided with reports that Hong Kong's securities industry watchdog had launched an investigation into possible manipulation of share prices. The Securities and Futures Commission said it was making inquiries into share-price movements in a broad range of companies, not only red chips.

Red-chips have been the best-performing shares on the Hong Kong market ahead of this month's return to Chinese sovereignty. Investors anticipate rapid expansion in their businesses, partly based on asset injections from their parent companies.

Mr Zhu Xiaohua, chairman of China Everbright IHD-Pacific, outlined further growth for the company. "The company's strategy is to become a broader red-chip conglomerate with a focus in the financial sector," he said, citing the recent acquisition of a 20 per cent stake in the International Bank of Asia and its move to increase its stake in National Mutual Asia, the insurer, from 2.5 per cent to 5 per cent.

The latest deal is seen as a coup for Mr Zhu, who has driven rapid expansion of the group since taking over last year.

Expansion at China Resources has been slower. It has focused on trading and industrial activities, but has recently increased its presence in the financial sector. After the latest deal, China Resources Enterprises and a joint venture with Lippo will hold a combined 75 per cent stake in HKCB Bank. HKCB will hold 100 per cent of HongKong Chinese Bank, which will be renamed China Resources Bank.

Daewoo reaps rewards of design change

For a brand habitually dismissed as "bland", Daewoo has powered back with a vengeance. Rather than just one, South Korea's second biggest manufacturer of cars has confounded its critics by launching three new models.

The Lanos, Nubira and Leganza are just the start of a blitz of new products. Daewoo, which is part of one of Korea's biggest industrial conglomerates, is determined to diversify into luxury models, multi-purpose people carriers and possibly off-road sports utility vehicles, to shake off its dull and down-market image.

The three new models represent a change of quality, as well as quantity. They contrast with the Nexia and Espero, Daewoo's two current war-horses, which are based on previous-generation Opels built by General Motors, its partner until an acrimonious bust-up in 1992. The Tico, a mini-car not sold in western Europe, is based on a Suzuki.

After the divorce from GM, Mr Kim Woo-Choong, Daewoo's workaholic group chairman, decided that all future models would be developed in-house.

Foreigners have been drafted in where necessary. Mr Giorgetto Giugiaro, the Italian who has helped create some of the world's most stylish cars, designed two of the new models. IAD, the UK automotive engineering consultancy bought by Daewoo in 1994, engineered one.

Early reactions to the new models, which will be introduced progressively in Europe from next month, have been positive, though not euphoric. The most praise has gone to the Leganza, the biggest of the trio, comparable in size to a Rover 600.

The new cars have not arrived a moment too soon as far as Korea is concerned. New passenger car registrations in the country, which rose 7.8 per cent last year, fell from 288,000 in the first quarter of 1996 to just under 226,000 in the same period this year.

By contrast, Daewoo's new vehicles, which have been introduced progressively since last November, lifted group sales to more than 69,000 cars in the first quarter from 63,000 last year. Helped by its new products, Daewoo has overtaken Kia Motors as the country's second biggest brand and has narrowed the gap on Hyundai, the leader.

By April, the first month in which the Lanos, Nubira and Leganza were all on sale, Daewoo's 1997 market share had climbed to 35 per cent, 10 percentage points behind Hyundai, and well ahead of Kia Motors – in which Ford and Mazda have significant stakes – which was languishing at 20 per cent. During 1996, by contrast, Daewoo's share had been 23 per cent, compared with 49 per cent for Hyundai and 28 per cent for Kia.

But Daewoo has not been immune to slower sales and rising interest rates, which have overshadowed the Korean economy after some spectacular corporate collapses this year.

The recent opening ceremony at its massive Kunsan car plant demonstrated uncharacteristic reticence on the part of Daewoo's normally hyperbolic spokesmen. Rather than referring to future expansion at the plant – adding 600,000 units of capacity had been mentioned previously – the company spoke only of the more modest 300,000 units a year first phase. One reason may be the sharp rise in Daewoo's planned foreign output, following a string of recent acquisitions in eastern Europe and Uzbekistan.

Visitors to April's Seoul motor show had a foretaste of the M100, next year's replacement for the Tico, in the form of the Matiz concept car. The following year will bring both the U100, a small multi-purpose vehicle similar to Renault's Mégane Scénic, and the Shiraz executive saloon.

For 2000, Daewoo has pencilled in the even bigger A100 luxury model as its planned Mercedes-basher.

But while Daewoo's styling has been refreshed, its engines remain earthbound. The Lanos, Nubira and Leganza use the same outdated GM-inspired engines from the Espero and the Nexia. It will not be until 1999 that the first of Daewoo's own XS family of engines, given the official go-ahead last month, will be installed in its vehicles.

The engine project has failed to keep pace with the speed of Daewoo's new car programme. Internal differences may be to blame. While most of the company's development work has until now been done by a 2,500-strong research and development team in Korea, the engine project is being masterminded by fewer than 100 largely German specialists at a new engine centre in Munich.

To bridge the gap until the first of the new engines makes its appearance – in the Shiraz – Daewoo last month agreed to buy units from Renault, along with the right to manufacture some Renault engines in Korea and overseas.

Although Daewoo builds diesels for commercial vehicles, it does not make any for passenger cars. Subcontracting will eliminate the cost of developing an engine, which will probably account for only a small proportion of sales. Even a company with Daewoo's ambitions, it seems, may have learned that discretion can be the better part of valour.

Haig Simonian

Hyundai Motor of South Korea has been cutting production in its main plant to deal with its rising inventory, reports AP-DJ. The carmaker's inventory stands at 30,000 units, compared with a target of 15,000.

Meanwhile Asia Motors, an affiliate of Kia Motors, on Monday put off paying back Won130bn ($146m) of promissory notes, owed mainly to banks. "We had a temporary cash-flow problem, as other companies are experiencing. But we now have no financial troubles," said Asia Motors.

Honda may cut output after tax hits home sales

By Michiyo Nakamoto in Tokyo

Honda Motor is considering cutting production next month to cope with the worse than expected decline in demand following an increase in Japan's consumption tax in April.

Honda, which has been one of the best performers in the Japanese car market over the past few years, said the impact of the tax rise, from 3 per cent to 5 per cent, had been greater than forecast. It may halt additional prodnction on holidays scheduled for July to meet its order backlog.

"The reaction to the increase in the consumption tax was greater and has lasted longer than we expected," Honda said. The company's sales fell nearly 5 per cent in April and 3.4 per cent in May, following a 7 per cent rise in March.

Honda's plan to cut production highlights the plight of the Japanese industry following a buying spree before the tax increase.

At that time, Japanese car companies were throwing money at consumers to buy, said Mr Stephen Volkmann, analyst at Morgan Stanley in Tokyo. The yen's 17 per cent decline against the dollar provided windfall profits which enabled the car companies to boost incentives, he said.

Now the industry is suffering a becklash. Toyota, Japan's largest carmaker, sew registrations fall 16.6 per cent in April year-on-year and 8.8 per cent in May. Nissan's domestic sales declined 5.5 per cent in April while Mitsubishi's fell 32.8 per cent in April and 14.7 per cent in May.

Overall, the industry has suffered double-digit falls in domestic sales, down 15.1 per cent in April and 10.9 per cent in May, according to the Japan Automobile Manufacturers Association. Analysts say demand is unlikely to match output increases.

ASIA-PACIFIC NEWS DIGEST

Thai chip group to restructure debt

Alphatec Electronics, the Thai computer-chip maker facing a severe liquidity crisis, said yesterday it would come up with a financial and operating restructuring plan to submit to creditors within 45 days and that creditors would appoint an independent auditor to study the company's books. It also said it would indefinitely delay a 1996 dividend payment of Bt6.50 per share and seek to cancel the payment altogether.

Alphatec has missed payments on at least $34m in outstanding loans to foreign banks and an unknown amount to domestic banks, and it has a put option on a $45m eurobond due on June 22. Bankers said they had been asked for a 60-day standstill. The audit will be completed during this period as the company attempts to restructure its liabilities, which may involve some domestic banks converting their debts into equity.

Bankers say the audit is necessary as Alphatec has engaged in so much cross-lending to other companies in the Alphatec Group, which is owned by Mr Charn Usawoke, that creditors are unable to determine what assets and liabilities they would be taking on if they took shares in the company.

The Thai cabinet is delaying government help until after the restructuring plan is completed. It said: "The electronics industry in Thailand has high potential, is commercially competitive and is acceptable by world standards. The current problem ... has occurred not from the marketing side but [from] the unprudential management on finance." *Ted Bardacke, Bangkok*

Jardine in T$6bn Taiwan plan

The Hong Kong-based Jardine group is planning T$6bn (US$215m) worth of investments in Taiwan as part of its Asian expansion. The investment thrust is largely concentrated on retail and ports.

Mr Neil McNamara, group corporate secretary, said the total of planned spending is less than the amount invested by Jardine businesses in the Philippines last year. As part of the group's investment programme in Taiwan, it plans to open up to five hypermarkets over the next five years, at a cost of around T$500m each.

Suitable sites are now being sought for the stores, a joint venture between Dairy Farm, Jardine's retail arm, and Casino, the French retail group. The first outlet is scheduled to open next year. It also hopes to establish up to five new Ikea Swedish furniture stores in the next few years, as well as port terminals.

The group's renewed focus on Asia came after unsuccessful forays into UK businesses, including Trafalgar House, the engineering conglomerate, and Kwik Save, the food discounter. Other Asian countries in which Jardine is expanding inclnde the Philippines, Thailand, Japan and China. *Louise Lucas, Hong Kong*

Air NZ, Ansett to merge units

Ansett Australia, the Australian airline, and Air New Zealand are to merge their New Zealand-based domestic air freight and courier businesses. The new unit, which will bring together the Air New Zealand First Express and the Ansett NZ Air Freight operations, will be established as an equal partnership. The deal follows Air New Zealand's purchase of a 50 per cent interest in the Australian carrier last year. *Nikki Tait, Sydney*

Boral Energy in A$220m deal

Anaconda Nickel, which is developing the A$900m (US$677m) Murrin Murrin nickel/cobalt project in Western Australia with Glencore International, has awarded a A$220m contract to supply gas to the project to Boral Energy, part of the Australian Boral group. Boral will build, own and operate an 80km spur line from the main Goldfields Gas Transmission pipeline, which pipes gas from the North-West Shelf in the north of Western Australia to the goldfield region. *Nikki Tait*

An Feng merger wins approval

Shareholders in Kingstream, the small Australian mining group, yesterday voted in favour of the merger with Taiwan'a An Feng Steel group. Kingstream will own 19.7 per cent of the combined group.

The two companies are partners in the "Mid-West Iron and Steel" project, which envisages using iron ore from Kingstream'a tenements in Western Australia to produce steel slab at a facility near Geraldton. The merged group is planning a capital-raising of about A$650m (US$489m) to meet about 30 per cent of the project cost. *Nikki Tait*

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Prices for 18.06.1997 / Final Prices for Trading 22.05.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS loss of system price £/MWh
0030	[illegible]	[illegible]	[illegible]	[illegible]
0100	[illegible]	[illegible]	[illegible]	[illegible]
0130	[illegible]	[illegible]	[illegible]	[illegible]
0200	[illegible]	[illegible]	[illegible]	[illegible]
0230	[illegible]	[illegible]	[illegible]	[illegible]
0300	[illegible]	[illegible]	[illegible]	[illegible]
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0530	[illegible]	[illegible]	[illegible]	[illegible]
0600	[illegible]	[illegible]	[illegible]	[illegible]
0630	[illegible]	[illegible]	[illegible]	[illegible]
0700	[illegible]	[illegible]	[illegible]	[illegible]
0730	[illegible]	[illegible]	[illegible]	[illegible]
0800	[illegible]	[illegible]	[illegible]	[illegible]
0830	[illegible]	[illegible]	[illegible]	[illegible]
0900	[illegible]	[illegible]	[illegible]	[illegible]
0930	[illegible]	[illegible]	[illegible]	[illegible]
1000	[illegible]	[illegible]	[illegible]	[illegible]
1030	[illegible]	[illegible]	[illegible]	[illegible]
1100	[illegible]	[illegible]	[illegible]	[illegible]
1130	[illegible]	[illegible]	[illegible]	[illegible]
1200	[illegible]	[illegible]	[illegible]	[illegible]
1230	[illegible]	[illegible]	[illegible]	[illegible]
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1430	[illegible]	[illegible]	[illegible]	[illegible]
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Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.88/MWh becomes 1.088p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments [illegible]

Gencor takes its place on the world stage

South African conglomerate shakes off legacy of isolation with a UK listing for its valuable base metals assets

Four years ago, few could have predicted that Gencor, a diversified South African conglomerate with interests ranging from mining to consumer goods, would develop an international base metals portfolio with a market value of $7bn. To suggest it would then split itself into two and transfer its most valuable assets to a new London-listed company ranked in the top half of the FTSE 100, would have been fanciful.

The obstacles to such a transformation were as daunting as those that threatened South Africa's political transition from apartheid pariah to open market economy. Neither process is yet complete, but yesterday's announcement that Gencor will list its base metals operations in London, where they will form the hub of a new group to be known as Billiton, is the most striking example yet of a local group shaking off the legacy of isolation.

The move follows months of political lobbying by Mr Brian Gilbertson, Gencor chairman, and provides the most concrete evidence yet of the South African government's oft-stated commitment to abolishing exchange controls. The worldwide scramble for new mining prospects, particularly in Asia and South America, has prompted a variety of reforms at other South African mining groups. But none has travelled so far – geographically and strategically – as Gencor.

The metamorphosis began in 1993, when Gencor was unbundled from Sanlam, the South African life assurer, and disposed of its non-mining investments. The restructuring removed the discount to net asset value in the market price of Gencor shares, and paved the way for international expansion. This began with the $1.2bn acquisition of Billiton, the London-based aluminium producer, from Royal Dutch Shell in 1994.

Billiton will now be enlarged to house all Gencor's base metal interests, spanning aluminium, coal, mineral sands, nickel, steel and ferro-alloys.

The new company will also hold 56 per cent of a new nickel business to be formed by merging Gencor's nickel assets with QNI, the Brisbane-based producer.

The Billiton listing will free the group from the constraints of exchange controls, which have forced South African mining houses to seek elaborate mechanisms to raise funds abroad.

No less important, the new structure is likely to secure a higher market rating for assets that Mr Gilbertson believes have been undervalued in Johannesburg. These include the Alusaf aluminium smelter in KwaZulu Natal – the largest single smelter project in the world – and Gencor's 50 per cent stake in Richards Bay Minerals, the world's lowest cost producer of titanium metals.

Brian Gilbertson: move follows months of political lobbying by the Gencor chairman

The government's support for the move reflects "a remarkable deal of progress in the confidence of the authorities," Mr Gilbertson said in an interview. "They have a sympathetic ear and a very good understanding that mining is different from other industries. Mining houses are now welcomed in countries where we could not go in the past, and we would like Billiton to be in a position to act decisively."

The seal of approval from Mr Trevor Manuel, South Africa's finance minister, may have been clinched by the promise of new capital projects in the region. Mr Gilbertson expects the listing to raise about $1bn – "three or four times what would have been possible for a South African company" – to fund new capital projects over the next five years.

The first fruit of restructuring is likely to be a new aluminium smelter at the Mozambican capital of Maputo. This would require an expansion of the existing port, reviving a colonial trading route for South African exports. The smelter will process alumina imported from Australia, and is likely to trigger new investment by Gencor in Worsley, an alumina refinery in Western Australia.

Other projects on the drawing board include a titanium minerals project in Mozambique, a zinc smelter in South Africa's Eastern Cape province, and an expansion to double capacity at the Cerro Matoso nickel mine in Colombia.

Billiton is also exploring new nickel prospects in Indonesia, and will bid for a stake in the privatisation of state mining assets in Brazil and Venezuela.

The restructuring will ultimately sever all ties between the group's London-listed base metals operations and its precious metals interests, which will remain in Johannesburg. Gencor shareholders will receive new Billiton paper on a pro rata basis, and each company will have independent directors.

Mr Gilbertson does not rule out the prospect of Billiton developing a new precious metals business from London. Local gold interests have lagged the performance of Gencor's base metals businesses, and the prospects for Impala, the platinum subsidiary, were hit by the European Commission's veto of a merger with Lonrho Platinum. But he argues that Gencor's more focused structure will attract a higher rating for Gengold, its wholly owned gold mining subsidiary, which had been "hurled" within the old Gencor.

The new structure will create what is believed to be the world's only listed gold and platinum combination. However, the outcome of that process remains the stuff of speculatioo.

Mark Ashurst

Merger of nickel assets with QNI confirmed

By Nikki Tait in Sydney

Gencor announced yesterday it would merge its nickel assets with QNI, the listed Australian company which operates the large Yabulu refinery in Queensland, to create the world's fourth-largest nickel producer.

The merged entity, which will be quoted on the Australian Stock Exchange, will have a production capacity of about 60,000 tonnes a year.

Based on QNI's pre-merger share price, its stock market capitalisation will be about A$2.3bn (US$1.73bn).

Under the deal, QNI will acquire the businesses which make up Gencor's nickel division. It will then issue between 504m and 525m shares to the South African group, giving Gencor a 55-56 per cent interest in the enlarged entity.

The deal is subject to approval from Australia's Foreign Investment Review Board, and also from QNI shareholders. However, the Queensland-based company said yesterday it hoped to complete the transaction by mid-August.

Mr Wyn Davies, QNI's managing director, will become chairman of the new company, with Mr Max Roberts, QNI's current chairman, retiring. Mr Mark Salamon, Gencor director with responsibility for the nickel division, will be deputy chairman and Mr Chris Pointon, chief executive of Gencor's nickel division, will be managing director.

Mr Davies yesterday described the deal as a "merger of complementary businesses which will gain from their combination". The merged group should benefit from increased scale and a broader product range, the companies added.

QNI's main activity is as a "toll refiner", processing imported nickel and cobalt ore, mainly from Indonesia, New Caledonia and the Philippines. However, it has recently expanded its alliances in New Caledonia, agreeing last year to explore nickel tenements in the southern province with Noumea Enterprises.

QNI also took a 67 per cent stake in a joint venture with Société des Mines de al Tontoua to acquire tenements in the northern province.

Gencor and QNI are also already associated in Indonesia, where – together with the state-owned PT Aneka Tambang – they have been looking at new ore deposits and an integrated nickel and cobalt processing facility.

Gencor's nickel division, meanwhile, has a 50 per cent interest in the Lake Johnston joint venture in Western Australia, which includes the prospective Maggie Hays nickel project, and a 37.5 per cent stake in the "Roundtop" joint venture, which includes the Emily Ann nickel prospect.

In addition, Gencor owns 98.9 per cent of the Cerro Matoso integrated nickel mine and smelter in Colombia, with output of around 30,000 tonnes a year. Expansion may lift this to about 50,000 tonnes.

QNI shares had been suspended on Tuesday at A$2.68, and did not trade either before or after yesterday's announcement. They are due to resume trading today.

Telecom Italia sees AT&T link soon

By Paul Betts in Milan

Stet-Telecom Italia, the recently merged Italian telecommunications company due to be privatised in October, appears confident it will reach a strategic partnership with AT&T, the US telecoms group, by the end of this month.

The Italian group has been negotiating an alliance with AT&T as part of its efforts to strengthen its international operations ahead of its privatisation.

If the negotiations are successful, AT&T is expected to become a core shareholder of the new Telecom Italia, as the merged company has been named, when it is privatised in the autumn. The government plans to float 30-35 per cent of the telecoms group and place another 10-15 per cent with strategic core shareholders.

AT&T's role as a core shareholder would provide Telecom Italia with a strong international partner, and also a "white knight" in the event of a hostile bid after privatisation.

There are fears of such a bid because the government's "golden share" – giving it powers of veto on strategic decisions – in the privatised telecoms group will disappear after three years.

The Italian cabinet yesterday approved the decree for the privatisation of the telecoms group, which will involve a public offering and a private placement to establish the core of stable shareholders.

But the government, which through the Treasury owns a 44.8 per cent stake in the merged company, said individual core shareholders could be replaced with others after privatisation. This could lead to eventual changes in the control of the company.

The government said yesterday that the core would not "compromise competition for control" of the group.

US jitters hit Goldman profits

By Richard Waters in New York

The bout of nerves that hit the US stock market this spring has led to a sharp slow-down in earnings at the leading US investment banks, if figures reported yesterday by Goldman Sachs are a guide.

However, Goldman's pre-tax earnings of $810m for the second quarter still leave Wall Street's most prominent private partnership on track to produce record earnings for 1997 as a whole.

Goldman, like other Wall Street firms, had a powerful start to the year on the back of the continuing mergers and acquisitions boom, the scramble of US companies seeking initial public offerings for their shares and the buoyant trading conditions in stock and bond markets.

However, only the buoyant M&A business was equally strong in the second quarter, said Mr John Thain, chief financial officer. "March and April were somewhat less good months in the trading business," he added, as US share prices fell and bond market investors became more cautious.

The bank's latest pre-tax earnings, for the three months to the end of May, were about one-third below the $905m of the previous period, which was the second-best quarter in Goldman's history. Revenues were $283m lower at $1.674bn.

The performance also represented a decline of 14 per cent from earnings of $709m for the same period in 1996. As a partnership, Goldman reports results before deducting compensation to its 190 partners, and before tax.

Despite this, the bank's earnings of $1.52bn over the past six months still leave it on course to exceed the record $2.66bn of 1993. It has already topped the amount it made in the whole of 1995.

Goldman's results act as a curtain-raiser for those of other investment banks, whose earnings also vary with the ebbs and flows of the financial markets.

This time around, though, its earnings decline could be more marked than those of banks whose financial periods end a month later.

These banks will benefit from the US stock market's rebound to new records this month, as well as a renewed flood of initial public offerings. "The environment is very strong," said Mr Thain. "We continue to see great strength in the stock market, [as well as] low inflation and low interest rates."

Goldman is widely acknowledged to be one of Wall Street's more profitable investment banks.

Morgan Stanley, which had equity capital of $6.5bn at the end of last year, notched up pre-tax profits of $1.6bn during 1996. Goldman earned $2.6bn on a capital base of $5.2bn in the same period, though the figure is before payments to partners.

Mannix to sell C$1.5bn of assets

By Bernard Simon in Toronto

Calgary's secretive Mannix family has put its extensive coal and energy assets up for sale with an estimated value of about C$1.5bn (US$1.08bn).

Loram, a Mannix holding company, has retained RBC Dominion Securities to seek buyers for Manalta Coal, Canada's biggest coal producer, and Pembina, an oil and gas producer with a sizeable pipeline network in Alberta and British Columbia.

Manalta's eight mines produced 25.6m tonnes of coal last year, or about one-third of Canada's total output.

Pembina was at one time a public company, but the Mannix family bought out minority shareholders in 1988.

The Mannix empire has its origins in a construction business started by Mr Fred Mannix in the 1920s, and passed on to his son, who died two years ago.

Two grandsons, Ron and Fred, now oversee the family business, which also includes a venture-capital arm, and a railway maintenance and equipment group with operations in North America, Europe and Australia.

At a rare press conference, Mr Fred Mannix said the decision to spin off Manalta and Pembina was prompted by "a strong market for sound investment opportunities in companies like these".

Several othar western Canadian resource groups have brought in ontside investors over the past two years through the creation of publicly traded "royalty income trusts".

These trusts bave, until recently, provided a high return to investors from the underlying assets' cash flow.

Mr Lorne Gordon, Loram's chief operating officer (who is not a Mannix family member), said proceeds from the sale would be re-invested after a review "of our future business interests".

According to a 1977 profile by Canada's Financial Post, the Mannix family's business philosophy is: "Own lt. Watch what's happening. No dividends. Plongh the money back in. Develop. Expand. Acquire. Know a few [peopla] in finance and govarnment with whom you can reason. Be honourable. Be quiet."

AMERICAS NEWS DIGEST

$1bn bond backs Venezuela project

A billion dollar transaction for a heavy oil project in Venezuela has underlined the growing importance of international bond markets in funding infrastructure projects in developing countries. The $1bn bond issue to provide part-financing of the $2.5bn Petrozuata heavy oil project in Venezuela was agreed late on Tuesday and is the second largest project finance bond to date.

Credit Suisse First Boston was the lead manager to the issue. The largest such bond to date has been the $1.2bn raised last December for the Ras Laffan Liquefied Natural Gas plant in Qatar. The Petrozuata project, a joint venture between Maraven, a subsidiary of PDVSA, Venezuela's state oil company and Conoco, the US oil giant, is being developed to exploit Venezuela's largely untapped heavy oil reserves in the Orinoco belt.

Petrozuata's sponsors elected to go for bond financing in an effort to minimise the amount of bank financing required and to eliminate a need to secure expensive political risk insurance.

The bond was carried out in three tranches: a 12-year $300m tranche priced at 120 basis points over 10-year US Treasuries; the largest – a $625m tranche – which was priced at 145 basis points over 30 year Treasuries with a final maturity of 20 years; and a final tranche of $75m. This was priced at 160 basis points above 30 year Treasuries and has a 25.5 year maturity, the longest final maturity for a project financing. *Joel Kibazo, London*

Further delay for Banerj sale

A delay in the Brazilian Senate is likely to hold up the planned privatisation of Banerj, the Rio de Janeiro state bank, until at least today. Before the auction can take place, a special Senate committee and then the full Senate need to approve details of the sale, including a R$2.9bn (US$2.7bn) loan from Caixa Econômica Federal, the federally-owned bank, to cover Banerj's pension-related debts.

The Senate committee had been due to meet on Tuesday to discuss the loan. However, insufficient members turned up for a vote to be taken. The next scheduled session of the committee is today. Political analysts said that approval in the Senate could not be guaranteed, and further delays could also be caused by a number of legal actions against the sale.

Banerj was due to have been sold at an auction on the Rio de Janeiro stock exchange on Tuesday for a minimum price of R$310m. The Rio state government expects four banks to bid – Bradesco, Banco Itaú, BCN and Banco Pactual, a local investment bank, on behalf of an un-named client. *Geoff Dyer, São Paulo*

Battle looms for Corimon

Shares in Corimon, the Venezuela paint group which recently returned to profit-making after a rescue plan including aggressive restructuring and a debt for equity swap, continued a recent sharp rise yesterday as speculation built over a potential takeover battle.

"There appear to be two groups buying up shares in an attempt to control the company," said Mr Boris Molina, an analyst with Deutsche Morgan Grenfell in Caracas.

One of the two groups is said to be led by Mr Victor Gill and his brother Carlos, shareholders in the local Interbank and one of many former creditors of Corimon, who acquired a stake of Class B shares in the company through a recent debt for equity swap. Mr Carlos Gill is estimated to have accumulated 30 per cent of the shares.

Analysts suggest that a second group has formed around Mr Francisco Layrisse, the president of Corimon, who is believed to be seeking a management buy-out with the help of a strong local investor.

According to Mr Miguel Blessing, analyst with the Caracas stock exchange, there has been strong trading of Corimon class B shares in recent days. "Very large volumes of shares have been traded but the share price has increased only in line with the general market trend," he said.

On Tuesday, Corimon shares traded at Bs17 ($0.035) up from Bs12.3 two weeks before. Creditors acquired some 4.1bn preferential Class B shares convertible to Class A shares with voting rights at Bs10 as part of the debt for equity swap. Corimon's net worth is estimated at approximately $114m. *Raymond Colitt, Caracas*

■ US paintmaker Sherwin-Williams has bought Chilean paint company Pinturas Andina in the Cleveland-based firm's second major acquisition in Chile in the past year, Andina said. Sherwin-Williams bought Andina for an undisclosed sum and plans to wrap it into the US company's local affiliate, Sherwin-Williams Chile, Andina added. Sherwin-Williams confirmed it purchased Andina. It said Andina, which has sales of between $10 million and $20 million, produces and sells architectural coatings through independent dealers and 16 company-owned stores. *Reuter, Santiago*

BankAm in Polish fruit stake

BankAmerica and the European Bank of Reconstruction and Development will pay $28m for a 41 per cent in Hortex, a Polish fruit and vegetable processing company. EBRD said yesterday it and BankAmerica would invest a further $25m in the company over the next two years. The EBRD said Hortex will be listed on Polish equity markets within the next three years. *AP-DJ, London*

US healthcare groups merge

Value Health shareholders approved a proposed merger with Columbia/HCA Healthcare Corp. Under a deal first agreed in in April, each Value Health common share will be exchanged for $20.50 cash under an amended and restated merger agreement. Value Health said yesterday the merger would be completed by the end of the second quarter. Value Health provides speciality benefit programs to large corporations, insurance carriers, managed care organisations, and federal, state and local governments. *AP-DJ, Avon, Connecticut*

Mexican road phase complete

Mexican construction company Grupo Mexicano de Desarrollo announced yesterday the completion of the first phase of a $310m toll-road project in Argentina. GMD said the first phase consisted of the widening, remodeling, and upgrading of 46 kilometers of existing highway.

The second phase will consist of building an additional 9km of highway. Construction has begun and is expected to conclude in October 1998.

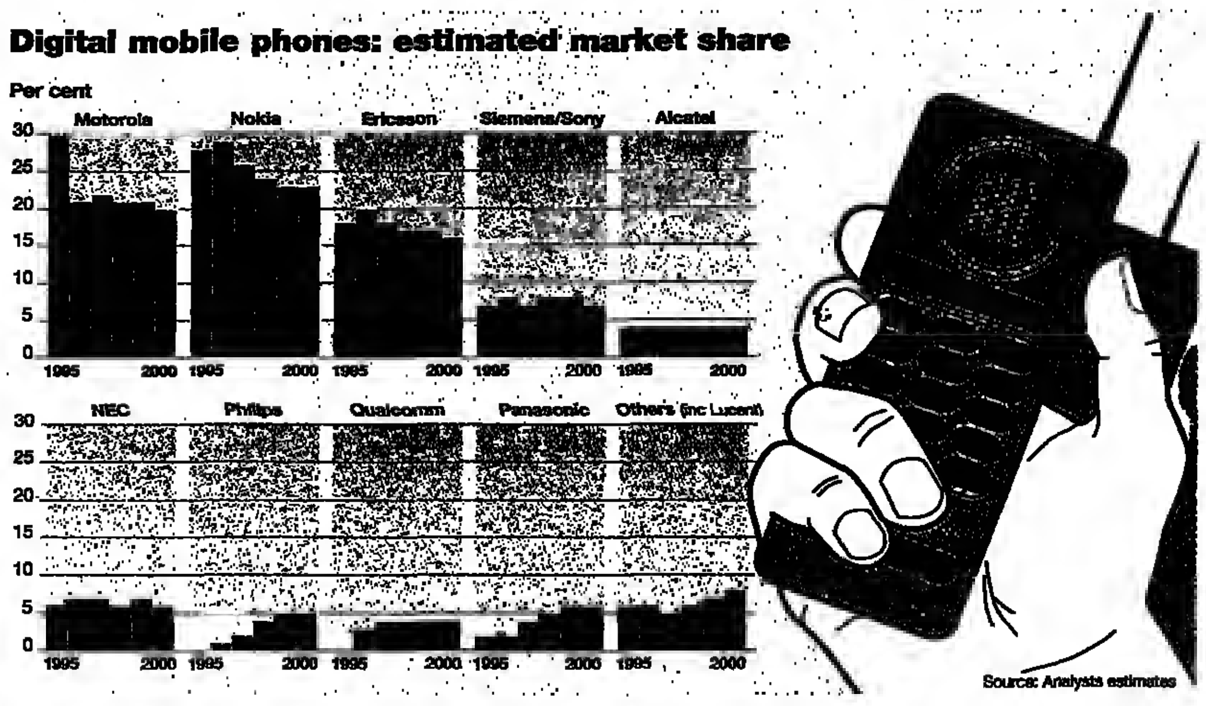
GMD said that with the conclusion of the first phase, the Argentine government authorised toll charges for the section of completed highway. It said tolls charged would equal $0.60 per km for cars, with higher tolls charged for larger cars. *AP-DJ, Mexico City*

Philips and Lucent late at the party

Venture leaves groups well-placed as battle looms over mobile phone standards

Philips of the Netherlands, Europe's biggest consumer electronics group, and Lucent Technologies, the leading US telecommunications manufacturer, share one distinction in consumer telephony products. They dominate their respective markets in cordless phones – handsets which allow their users to roam a short distance from a fixed base station.

But cordless phones have yet to fulfil their early promise, while cellular mobile handsets, where neither company has much market share, continue to experience spectacular growth.



Source: Analysts estimates

Motorola of the US, Nokia of Finland and Ericsson of Sweden are the market leaders in mobile telephony, followed by a clutcb of European and Asian manufacturers. Philips and Lucent trail far behind.

This goes a long way to explaining wby Philips and Lucent this week announced their intention to merge their consumer communications products divisions in a joint venture with $2.5bo of revenues manufacturing mobile pbones, corded and cordless phones, answering machines and screen phones.

Some see it as a move born of desperation. Success in the fast-growing mobile handset market is critical.

Philips' decision to put its telephone hardware business into the joint venture is the most striking evidence so far of its new top management's determination to "fix, sell or close" casb consuming activities. The Lucent deal is a "fix".

Philips' move two years ago into mobile phones, based on the GSM digital standard, was initially regarded by analysts as having come too late to compete profitably with Nokia, Ericsson and Motorola, the establisbed big three.

Sentimeot bas begun to cbange in recent months, however, as the group's Singapore-made mobiles have gained market share. The consumer communications division as a whole had 1996 sales of Fl 1.3bo ($666m) and was projecting a near doubling to Fl 2.5bn this year. Philips says more than 1m handsets have been sold.

On its own, however, Philips would have bad to absorb start-up losses associated with mobile phones for some time yet. As majority owner of the 60-40 venture, to be called Philips Consumer Communications, it will treat earnings of the New Jersey-based entity as fully consolldated ln its accounts.

Philips shares closed at a record Fl 137.80 in Amsterdam yesterday, up Fl 8.90 on the day and 18.2 per cent on the week. They hava more than doubled in the less than nine months since Mr Cor Boonstra took over as chief executive. His pledges to purge the "bleeders" from tbe organisation weighed more with investors than the slide into Fl 590m annual net loss announced in February, or his reluctance to delineate a future course for the group beyond cost cutting.

But apart from the need to stem losses, Mr Boonstra has so far made three things clear.

First, the group will not lightly go into further risky enterprises involving the expensive davelopment of new product lines.

Second, it regards telephony as one of three activities whicb, although currently casb consuming, remain at its core – the others are in-car navigation technology and flat-panel displays for computers and future TV screens. Third, it needs industry partners across a range of sectors.

Flat panels were put into a joint veoture with Hosiden of Japan, entailing a shift from in-bouse technology to the industry standard.

The Lucent deal leaves its Navtech unit as the only stand-alone business in this category, but it is on a far smaller scale, with few competitors.

For Lucent, the deal is an opportunity to revitalise its smallest and least profitable business division. Revenues have been declining at about 7 per cent a year as customers shifted to purchase from rental of phones.

Ms Carleton Fiorina, president of the existing division, told analysts the revenue decline also reflected the closure of Lucent pbone centre stores.

A principal problem will be branding. Lncent, formerly the manufacturing arm of AT&T, sells handsets throughout the US but under the AT&T brand. Lucent is not yet a household name and Philips is only a little better known.

The merger is, however, taking place at an important juncture for the mobile phone industry. A global battle looms between two standards, GSM (favoured by European and some Asian countries) and CDMA (favoured by the US and, increasingly, Japan). But Philips and Lucent are masters of both technologies and will benefit whichever standard takes the honours.

The new joint venture may be a latecomer to the mobile business, but it has not yet missed the party.

Alan Cane
Gordon Cramb

Oracle shares fall sharply despite earnings rise

By Louise Kehoe in San Francisco and agencies

Shares in Oracle, the world's leading computer database software maker, fell 6 per cent in early trading yesterday after its earnings in the fourth quarter to May 31 failed to matcb Wall Street's more optimistic forecasts.

"They had s fine quarter but they didn't blow out the numbers," said Mr Joe Farley, a software analyst at investmeot bank UBS Securities in New York. "A lot of times when tech stocks don't blow their numbers out, they get a backlash."

After the market closed on Tuesday, Oracle reported fourth-quarter earnings up 35 per cent year-on-year, to $359.9m, or 54 cents a share, from $266m, or 40 cents, in the same period last year.

That matched many forecasts, but fell short of some investors' expectations. Oracle sbares were down as much as $3¼ at $50 in early trading, before recovering later.

Nevertheless, the results, coming a week before Oracle is due to unveil its long-awaited "object-relational database" software, called Oracle8, demonstrated that Oracle is gaining at the expense of competitors such as Informix and Sybase.

"The fourth quarter represents the culmination of a pivotal year for Oracle," said Mr Ray Lane, president and chief operating officer. "The database industry has consolidated around Oracla's leadership."

Oracle's next generation software, which is capable of supporting tens of thousands of users and almost any type or amount of data, is now in the final pbase of testing, the company said yesterday. More than 1,000 customers in 60 countries are already trialling the program.

Revenues for the quarter reacbed a record $1.95bn against $1.46bn.

Full year revenue grew 35 per cent to $5.68bn and net income was up 33 per cent at $845m, or $1.26 a share, excluding a $24m after-tax charge in the third quarter related to an acquisition.

In fiscal 1996 net income was $636m, or 95 cents a share, excluding a separate $33m acquisition charge. Software licence revenues and related sales grew 26 per cent in the fourth quarter, with applications software up 78 per cent.

Fiscal 1998 will begin with the introduction of Oracle8 and will also feature the launch of a new applications server, web site developer software, and tha much anticipated Network Computer, said Mr Lane.

Westinghouse mulls $3bn sale

By Richard Waters

Westinghouse Electric, the US media and industrial group, is studying plans to sell its highly profitable refrigerated transport business in a disposal that could raise as much as $3bn.

Tbe decision marks another change in direction from a company that has pulled off a series of unexpected twists and turns over the last two years in its attempt to rekindla enthusiasm for its battered stock.

The latest move has been prompted hy approaches from potential buyers for the transport business, Thermo King, which has long been regarded as one of Westinghouse's "crown jewels".

Tbe Pittsburgh-based group announced late last year it would spin off Thermo King with its other industrial businesses during 1997, leaving it as a pure media company.

That would be the final step in a process thst has seen Westinghouse sell a variety of operations, while buying CBS, the television network, and other media businesses.

Yesterday, however, the company revealed a change of heart with the announcement that it would keep Thermo King separate from the other industrial businesses it is spinning off, which make power generation equipment and service nuclear power stations.

It also said it would keep the unfunded pension liabilities, valued at $1.2bn, that it had planned to sbed with the industrial businesses.

Mr Michael Jordan, chairman, said the switch would give the company more flexibility in deciding how to reap the highest value from the business. Potential buyers are believed to include General Electric.

By selling Thermo King, Westinghouse would also be able to make use of some of the tax losses it built up in the first half of the 1990s, and would have the cash to repay part of the debt linked to its media acquisitions.

However, any delay in disposing of the refrigeration business and paying off the pension liability could hamper Westinghouse's ambition to achieve a better stock market rating.

PanCanadian poised to acquire CS Resources

By Scott Morrison in Vancouver

PanCanadian Petrolenm was poised yesterday to acquire CS Resources, a lesding developer of heavy oil extraction technology, in a C$521m (US$376m) deal, seeing off a C$413m hostile bid by Gulf Canada Resources.

PanCanadian, the country's second-largest producer, emerged as a white knight by announcing a friendly offer for CS Resources, prompting Gulf to stata that it would not revise its bid.

"Gulf believes the competing bid announced by PanCanadian this morning is axtremely aggressive and good for CS Resources shareholders, hut far more than Gulf is willing to pay for the company," said Mr J.P. Bryan, Gulf's president and chief executive officer.

CS Resources had said it was in discussions with other companies to fend off Gulf's hostile bid.

Its board has approved PanCanadian's offer, which represents a 41 per cent premium to the group's closing share price on the day before Gulf launched its bid.

PanCansdian, which currently owns no CS Resources shares, has offered C$465m in cash and will also assume C$56m in CS Resources debt.

It will pay for the acquisition from existing cash.

The deal is subject to two-thirds of CS Resources' shares being tendered.

The two producers' interest in CS Resources has centred on its heavy oil assets and its advanced technology in axtracting the commodity.

These are growing in importance as conventional reserves of Canadian cruda dwindle.

PanCanadian said that it expected CS Resources to become the company's heavy oil arm, and that it would retain CS Resources' team of engineers and geologists.

CS Resources, which has an estimated reserves of 132m barrels of crude oil and 44bn cu ft of natural gas, was seen hy industry insiders as being too slow in developing its oilsands properties in Alberta.

The company produced 13,000 b/d of oil and 11.9m cu ft a day of natural gas during the first quarter of 1997.

PanCanadian produced 141,000 b/d of oil and natural gas liquids, and 726m cu ft a day of natural gas during the first quarter of this year.

COMPANIES AND FINANCE: EUROPE

Gazprom hits back at government

By John Thornhill in Moscow

Gazprom, Russia's giant gas monopoly which is under pressure to pay an outstanding tax bill, hit back at the government yesterday, blaming Moscow's poor financial planning for the non-payment crisis afflicting the country.

The attack came as Gazprom officials detailed plans to spin off peripheral businesses employing 100,000 people and to raise additional capital abroad.

Gazprom confirmed it had reshuffled its financial advisers, retaining Crédit Lyonnais and Dresdner Kleinwort Benson to raise up to $4.2bn of short-term finance.

But a second tranche of American Depositary Receipts would not be issued until next year, when the international share price had recovered from its recent turbulence, it said.

Mr Pyotr Rodionov, Gazprom deputy chairman, said the government's "improper" budget planning meant federal agencies did not have the money to pay their gas and electricity bills, leading to an accumulation of debt in the economy.

Gazprom was still owed more than Rbs70,000bn ($12.1bn) for gas it had delivered, he said, and would seek to recover this debt – perhaps by restructuring it into long-term bonds.

"We should not deceive ourselves, our society and the world community by saying that we do not have a budget deficit while we are building this deficit in clandestine form into our budget," he said.

Mr Rodionov, a former energy minister who has been tipped to succeed Mr Rem Vyakhirev as chairman, promised Gazprom would nonetheless pay all its outstanding tax bill by June 30, enabling the government to pay back pensions and wages.

"Gazprom has undertaken to repay its debt to the state and will do so by the fixed time," he said.

Mr Rodionov also rejected criticisms the company was taxed lightly, saying it had paid 25.7 per cent of all federal budget revenues last year. "Is that normal? It is unprecedented in the world," he said.

The company, which accounts for 25 per cent of global gas output, said it was hiving off its extraction and transportation businesses into separate limited liability companies, in a move to improve the transparency and efficiency of its operations.

It had also established Mezhregiongaz as a separate gas marketing company, with branches in more than 60 regions.

Mr Rodionov confirmed Gazprom would cut its workforce by 100,000, to about 300,000, during 1997 by demerging unrelated businesses, such as farms and hospitals.

Moulinex makes first profit for five years

By David Owen in Paris

Moulinex, the French household appliances group in which Mr George Soros, the international financier, is a leading shareholder, has returned to the black after five years of losses.

The company yesterday reported a small net attributable profit of FFr29m ($4.96m) for the year to March 1997, spurred by lower raw material prices, favourable currency fluctuations and sharply reduced financial costs.

The figure was released less than a week after Sweden's Electrolux, the world's largest supplier of domestic appliances, announced plans to cut 12,000 jobs.

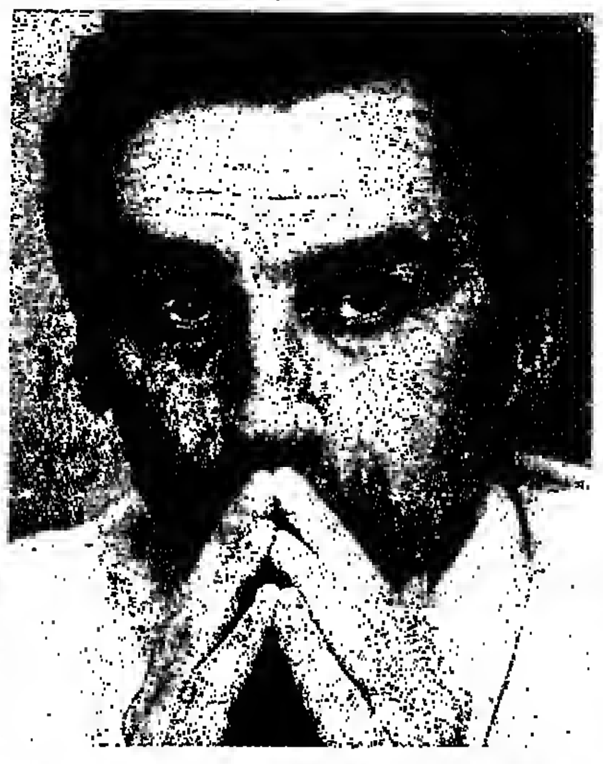
It compares with a FFr702m loss the previous year – the biggest in the group's 60-year history. The loss had incorporated a FFr600m provision for a restructuring plan which was to have involved the group shedding more than 20 per cent of its workforce.

In the event, 750 of the 2,600 condemned jobs were saved by moving staff to part-time working. Mr Pierre Blayau, chairman, warned at the time the group would fall into the hands of a foreign competitor if it did not accept within two years the need for reforms.

Yesterday's result also featured a tripling of operating profit, from FFr54m to FFr160m, on turnover down marginally from FFr7.79bn to FFr7.75bn. The group said industrial production had been cut by 15 per cent in the second half to reduce inventories. Gearing at March 31 stood at 80 per cent, reflecting both a cut in net consolidated debt from FFr1.51bn to FFr1.11bn, and a FFr525m capital increase.

Moulinex said it planned soon to launch a five-year bond to be quoted in Paris and Luxembourg.

Mr Soros appears to have made a handsome paper profit since his investment became public last November. At that time, Moulinex shares were trading at little more than FFr110. They closed yesterday at FFr143 – before the announcement.



Pierre Blayau: had warned group might be taken over Reuter

Battle looms over seats on GP Banque board

By Andrew Jack in Paris

A new battle over minority shareholders' rights is brewing in France, following the abrupt removal of the head of a small investment bank controlled by state-owned bank Marseillaise de Crédit.

A group of North African investors who control 36 per cent of GP Banque, based in Paris, believes that Marseillaise de Crédit, which owns the remaining two-thirds, has failed to meet its obligations to share boardroom power.

The dispute follows the decision by Mr Pierre Habib-Deloncle, chairman of Marseillaise de Crédit, to appoint himself chairman of GP Banque at the annual general meeting on May 30. That reduced the minorities' representation on the seven-strong board to just one director.

He did so after resolving not to renew tha nomination of the incumbent chairman, Mr Abderrahmane Hadj-Nacer, the former governor of the Central Bank of Algeria, who represented the interests of minority shareholders.

His dismissal led to speculation tbat Mr Habib-Deloncle, who is closely linked to President Jacques Chirac, had made the move to secure a job in case his position at Marseillaise da Crédit was jeopardised by the victory of the socialists in the French general election, which took place two days after the AGM.

Mr Habib-Deloncle is a former treasurer of the Friends of Jacques Chirac club, and head of a professional association in the banking sector linked to the Gaullist party. He was appointed shortly after President Chirac'a election in May 1995, after another banker's nomination was blocked.

Others say Mr Habib-Deloncle had attempted to take a hands-on role in the daily management of GP Banque, and his efforts were partly blocked by Mr Hadj-Nacer.

Mr Habib-Deloncle yesterday denied any political motivation, and said he had not renewed Mr Hadj-Nacer'a appointment because of "differences" over GP Banque's strategy, adding that he wanted it to co-operate more closely with Marseillaise de Crédit.

He argued that his appointment was only a temporary measure and said it was up to tha minority ahareholders in GP Banque to nominate a new chairman at a meeting to be held on July 7. However, ha was not prepared to accept Mr Hadj-Nacer'a renomination and would not rule out the possibility that he might remain in charge if no suitable candidate was found.

The dispute could now lead to legal action by the minority shareholders to force Marseillaise de Crédit to buy out their stake.

Spain embarks on sale of duty-free group Aldeasa

By David White in Madrid

Spanish anthorities have begun the privatisation of dnty-free gronp Aldeasa through the acquisition of a stake by the state-controlled Tahacalera tohacco company, to be followed by a separate public share offering.

Tabacalera is to buy 20 per cent of the company currently beld by the national airport authority Aena. The remaining 80 per cent, owned by the finance ministry's holding company Seppa, is to be offered to Spanish and international institutions in September.

The deal marks a significant diversification for Tabacalera, which is 52 per cent state-controlled and is itself on the list for early privatisation.

The company announced an agreement to buy Aena'a holding for Pta11.34bn ($77.5m), plus an additional sum to be set when the remainder of Aldeasa is sold.

Under terms suhmitted yesterday to the CNMV securities commission, the final price of Tabacalera's stake will be based on the institutional share price set in September, plus 22.5 per cent.

The sell-off is part of the Spanish government's plans to speed up privatisations, taking advantage of the strong investor interest aroused by the recent large offers in Telefónica and the Repsol oil group. The Argentaria banking group is acting as adviser for the Aldeasa sale.

Aldeasa will continue to operate under an agreement with Aena giving it an exclusive concession for duty-free shops at Spanisb airports to the year 2006. The group, which has annual sales of around Pta50bn, has 100 airport shops in Spain, with operations in the same sector in Venezuela, Chile, Portugal and Morocco. It also runs shops at Spanish museums and has interests in other activities including air cargo and handling, catering and leisure.

Tabacalera said Aldeasa had "very encouraging domestic growth prospects", backed up by rising passenger air traffic and expanding sales space.

● Cofir, the Madrid-based holding company until last year controlled by Mr Carlo de Benedetti's Cerus group, has reached an agreement to buy the 34 per cent in hotel chain NH Hoteles it does not own, agencies report from Madrid.

The deal reflects Cofir's determination to refocus its portfolio on hotels and wine. Pta8 yesterday at Pta625.

EUROPEAN NEWS DIGEST

Sparebankgruppen drops Fokus bid

Sparebankgruppen, the Norwegian savings banks group, yesterday dropped a hostile takeover bid for Fokus Bank, a smaller rival. Shares in Fokus, which had been carrying a substantial bid premium, plunged 13 per cent to NKr60 on the news. The NKr73-a-share offer had valued Fokus at NKr4.8bn ($661m).

Sparebank's withdrawal followed opposition to its bid by Norway's parliamentary finance committee. It had objected to Sparebank buying Fokus share options in order to circumvent laws which bar investors from holding more than 10 per cent of a financial institution – unless the stake is more than 90 per cent. By purchasing options, Sparebank built up a holding of more than 50 per cent in Fokus. Mr Knut Ravna, Sparebank chairman, also criticised the committee's proposal earlier this week to tighten the implementation of rules which require 90 per cent acceptance for a takeover bid in the financial sector to succeed. He accused the committee of changing the rules, adding it meant that "big, well-capitalised foreign financial institutions will be able to take a 10 per cent tactical stake in Norwegian financial institutions and block necessary structural changes".

Norway's Banking, Insurance and Securities Commission urged Sparebank on Tuesday to drop its bid because it was unlikely to gain acceptance from 67 per cent of shareholders – the minimum required to force changes in company statutes under Norwegian law. *Greg McIvor, Stockholm*

Expansion at Vereinsbank

Bayerische Vereinsbank is expanding its domestic retail banking activities through the purchase of Noris Verbraucherbank to create a new unit with a lending volume of DM3.6bn ($2.1bn) and more than 100 branches across Germany. It will specialise in standardised loan and investment products for price-conscious customers wanting "easy banking".

Noris, which has total assets of DM4.1bn and 68 branches, will be combined with Franken WKV Bank, a Vereinsbank subsidiary with total assets of DM1.6bn and 44 branches. The merger will produce synergies of around DM130m. Vereinsbank is buying Noris from the Schickedanz group, which owns the Quelle mail order concern and Quelle-Bank, a direct bank. No price was given.

Vereinsbank said it would obtain a further 280,000 customers through the acquisition of Noris, increasing its market for mutual funds, property financing, mortgage-linked savings products and insurance. The new bank will have its headquarters in Nuremberg, where Noris and Franken WKV are based. Noris's business is concentrated in southern and western Germany, while Franken WKV, which has 90,000 customers, has branches mainly in eastern and northern Germany. *Andrew Fisher, Frankfurt*

Olivetti sees lower losses

Olivetti, the struggling Italian information technology and telecommunications company, yesterday confirmed it expected to report improved results this year, although it would still turn in a loss. Mr Roberto Colaninno, chief executive, told the annual general meeting the improvements in the company'a information systems business would not be sufficient to cover losses in telecommunications and the costs of the bolding company.

However, the group's overall loss would be lower than the L915bn ($539m) consolidated net deficit of 1996. Mr Colaninno said the telecoms businesses were still at a start-up investment phase. However, be expected the Omnitel cellular phone venture to break even in 1998. He said Olivetti had no intention of selling any additional stakes in Omnitel, which it regarded as one of its most promising growth businesses.

He also said negotiations were difficult with Bell Atlantic over the participation of France Telecom in Infostrada, Olivetti's fixed-line telecommunications venture. Infostrada is 67 per cent controlled by Olivetti, with Bell Atlantic owning the remaining 33 per cent. Olivetti's agreement with France Telecom envisages the French group acquiring a 49 per cent stake, with the other 51 per cent held through a new company 67 per cent owned by Olivetti and 33 per cent by Bell Atlantic. *Paul Betts, Milan*

Loan for Minoan Lines

Minoan Lines, tha Crete-based passenger operator, has raised Ecu125m ($111m) to help finance construction of two luxury fast ferries through a 10-year term loan at a cost of 125 points over Libor. The syndicated loan – the first to a Greek coastal operator – was arranged by Citibank, the biggest lender to the Greek shipping industry. Participating banks were ABN-Amro, Bayerische Vereinsbank, Christiania Bank, Landesbank Schleswig Holstein Girozentrale, Bank of Nova Scotia, National Bank of Greece and ETEVA, its investment banking subsidiary.

The deal for the new ships – which will cost a total of $220m – was priced at about 50 basis points above recent syndicated loans to big Greek shipping companies specialising in freight transport. A banker involved with the loan said it was denominated in Ecus to avoid possible exchange rate fluctuations linked with the launch of the proposed single European currency. *Kerin Hope, Athens*

Porsche in motorcycle link-up

The worlds of sleek luxury sports cars and rugged motor bikes will be brought together with an agreement announced yesterday between Porsche of Germany and Harley-Davidson Motor Company of the US. The companies are setting up a joint venture – into which each will put $10m of capital – for the assembly of engine components for Harley-Davidson motor bikes.

Porsche has worked with the US company since the 1970s on the development of existing Harley-Davidson engines. It said the joint venture would be based at one of Harley-Davidson'a US sites, with production starting in a few years. Based in Milwaukee, Wisconsin, the company also plans a plant in Kansas City. Last year, it produced nearly 119,000 motor bikes and earned net income of $166m on turnover of $1.53bn. *Andrew Fisher*

Scottish Power in AA link

By James Buxton, Scottish Correspondent

The Automobile Association will soon offer domestic energy supplies to its 6m personal members as part of a marketing alliance with Scottish Power, the multi-utility energy group which supplies both electricity and gas.

The AA, while primarily a motoring organisation, already provides a home assistance service to deal with electrical faults and faulty gas appliances. The alliance with Scottish Power will enable it to offer energy supplies as the liberalisation of gas and electricity markets comes into effect in the next few years.

The domestic electricity market is due to become open to full competition from April next year, though this may slip until early 1999 because few companies yet have the necessary systems in place. Full competition in gas is also due to come into effect during 1998.

Scottish Power, which is based in Glasgow, aims to become the UK's leading multi-utility business and win an increased share of the energy market. In the past two years it has acquired Manweb, the electricity company for north-west England and north Wales, and Southern Water, which provides water and sewerage in Sussex and Kent. It also has subsidiaries providing gas and telecommunications.

The AA will start making joint offers of products available from Scottish Power to its members in its next quarterly issue of AA Magazine in August, when full details of how it will offer energy products along with its other home assistance services will be revealed.

Scottish Power sees the alliance as extending its geographical reach and making its brand better known across Britain. It can provide gas to some Southern Water customers in Kent and Sussex of who are in a trial area for gas liberalisation, but the AA deal will give it access to areas where it does not already have a subsidiary, such as the Midlands and Yorkshire.

Mr Duncan Whyte, the executive director in charge of the multi-utility strategy, said the alliance meant Scottish Power would be associated with a brand which had a very strong position. "The AA are, as their advertising says, the fourth emergency service," he said. "They already carry out gas repairs. It is natural that they should supply gas as well."

The link between the AA and Scottish Power is a further example of companies forming alliances to exploit each others' customer bases. Utilities are anxiously watching a dispute between British Gas and the data protection registrar over the use of its database to send customers information about other products.

However, Scottish Power believes the link with the AA should not encounter problems of that kind since it is the AA's database, rather than its own, which will be used for selling energy supplies.

Charterhouse chairman to stand down

By John Gapper, Banking Editor

Mr Victor Blank, chairman of the merchant bank Charterhouse, who is among the City of London's best-known figures, is to announce today that he is stepping down after 16 years, and will seek a role in industry.

Mr Blank is to hand over control of Charterhouse, which is jointly-owned by BHF-Bank of Germany and Credit Commercial de France as well as its directors, to Mr Michael Hepher, the chief executive of Charterhouse.

Mr Blank, who is deputy chairman of Great Universal Stores and a non-executive director of Williams and of Coats Viyella, is thought likely to seek a role as chairman of an industrial company as a way of rounding off his career.

Charterhouse established a strong development capital amd corporate finance business in the 1980s when it was owned by Royal Bank of Scotland, and Mr Blank worked on transactions including Argyll's 1985 bid for Distillers. Together with BHF-Bank and CCF, Mr Blank has attempted to establish Charterhouse as a pan-European merchant bank which advises medium-sized companies on mergers and acqusitions. However, progress has been slower than was hoped.

Charterhouse's development capital arm has continued to be highly profitable. Mr Blank and 46 other senior managers with Charterhouse gained £12m ($19.6m) from investing money in a management buy-out of Porterbrook, the rail leasing company.

Mr Blank is thought to want to build on experience in the restructuring of industrial companies such as Woolworths and GUS as a non-executive director.

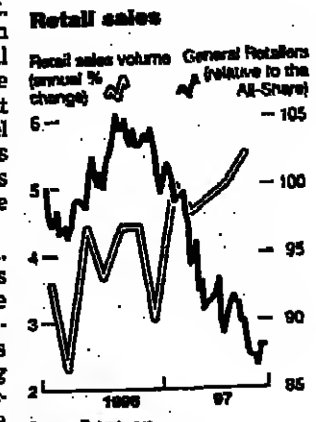
Mr Blank has been non-executive chairman of Charterhouse since the beginning of the year. He was previously both the chairman and chief executive, but split the roles after recruiting Mr Hepher to take operational control.

LEX COMMENT

Retail sales

The City is off to Ascot, consumers are awash with windfall gains, and retail sales are growing at the fastest rate since 1988. It all has a heady 1980s feel about it. The only snag is that this good cheer has mysteriously eluded the high street.

Certainly there is growth. but, with rare exceptions like Next, it is acceptable rather than exciting. Disappointed City analysts have been downgrading forecasts, causing the sector to underperform the market by nearly 20 per cent over the past year.



Source: Datastream

The reason is that volume gains have been bought witb low prices. Thus the rate of growth in cash spending has been steady at around 5-6 per cent over the past year, reflecting a near total absence of price inflation.

Consumers *are* spending, but doing so unevenly. Much of their cash is eluding traditional high street outlets and going into restaurants, travel and DIY.

But there is also great resistance to paying higher prices: Blair man is a sober shadow of his teamway Thatcherite counterpart, more inclined to top up his savings than crack open the bubbly.

Analysts and investors have been slow in digesting this reality. Had their initial expectations been more modest, they would be less disappointed. Now, though, is not the time to become enthusiastic about retail stocks: the high street remains competitive, yet strong consumer spending is likely to be met with higher interest rates and tight fiscal policy.

NatWest chief in strategy move

By John Gapper, Banking Editor

Lord Alaxander, the chairman of National Westminster Bank, has offered to meet the bank's 12 largest shareholders to clarify NatWest's strategy following Mr Martin Owen's resignation as the head of its investment banking arm.

Lord Alexander has written to shareholders in an effort to convince them that NatWest intends to refine its strategy for NatWest Markets, its investment banking arm, rather than to reverse earlier efforts to expand the operation.

Separately, NatWest is expected to appoint a new finance director for NatWest Markets shortly. Mr Derek Wanless, the bank's chief executive and acting head of NatWest Markets, wants to strengthen financial and risk controls.

Shareholders in NatWest have privately expressed doubts at whether Mr Wanless can continue as chief executive if NatWest reverses its strategy. Criticism of the bank's senior management intensified this week after NatWest issued a profits warning on Monday.

However, NatWest believes it is unlikely to face immediate pressure for further resignations, and will try to convince shareholders that it can restore NatWest Markets' earnings within an acceptable period to target levels.

Lord Alexander has offered to meet investment institutions together with Mr Wanless and Mr Richard Delbridge, NatWest's finance director. Mr Wanless is not expected to complete a review of NatWest Markets' strategy until August.

The bank is likely to cut back in some areas of operations in an effort to raise returns, but it is likely to stick with the businesses it has bought over the past two years, which include corporate finance and bond trading arms.

The bank will next week disclose the results of an inquiry into the mis-pricing of interest rate options that led to the suspension in March of five managers in NatWest Markets, and a loss of £77m after taking into account reduced bonuses.

NatWest will try to recruit a new chief executive for its investment banking operations within the next six months, and is expected to appoint an outsider.

European Motor drives ahead

By Christopher Price

Firmer car prices and new franchises helped European Motor Holdings, the vehicle retail group, to report a 31 per cent rise in annual pretax profits from £6.67m to £8.76m ($14.27m). Sales in the 12 months to March 31 rose 13 per cent to £390m.

Mr Richard Palmer, chief executive, said there had been a sharp fall in the number of cars being sold by manufacturers "pre-registered" to dealers, who would then sell them on as nearly new models.

The move had been made by manufacturers to clear excess supplies and the effect had been to depress both first and second hand prices.

Among the group's new franchises was one for Volvo in the north-east of England, further extending European Motor's strong presence in the region. The group also won the Jaguar franchise in the Leeds and Harrogate area, as well as the entire UK franchise for Perodua, the Malaysian manufacturer.

The company also has dealership arrangements with BMW, Rover, Audi Volkswagen and Mercedes-Benz. Profits from the retail division jumped by 50 per cent to £8.75m.

Richard Palmer: BMW was most profitable franchise

BMW was the company's most profitable franchise.

However, the motor services business fared less well, with profits declining 27 per cent to £1.9m.

The division, which specialises in the supply and maintenance of car washing equipment, suffered from the petrol price war with hard-pressed retailers seeking lower service prices.

Getting the measure of a very large Scotch and American

Ross Tieman on the expected Guinness/GrandMet inquiry

Tonight, or perhaps tomorrow, regulators in the US are expected to announce a thorough investigation into the £22.8bn merger between Grand Metropolitan and Guinness that would create the world's leading wines and spirits group.

The European Commission will almost certainly launch a parallel inquiry tomorrow. Like America's Federal Trade Commission, European regulatory authorities are concerned to ensure that the merger does not give GMG Brands, the merged entity, the power to rig markets in Scotch whisky, gin, and other spirits.

Any decision to investigate will come as no surprise to the merger partners. Their lawyers have been in almost daily contact with regulators on both sides of the Atlantic since the deal was announced on May 12. And they remain confident that it will ultimately be allowed - even if they are obliged to modify the terms, or dispose of some brands, in some markets.

The regulators' concerns are unsurprising. Guinness and GrandMet claim that together they will enjoy a share of the world spirits market of just five per cent. But that catch-all includes a lot of unbranded local firewater which scarcely competes with the big boys' premium products.

In reality, a merged Guinness/GrandMet would have a pretty hefty share of some of the world's most profitable markets for Scotch whisky, western vodka, and gin.

Seagram, the Canadian spirits and entertainment group, has been lobbying US regulators energetically to block the deal or ensure it is subatantially modified. Allied Domecq, a UK-based rival, is doing careful aums on their merged market share - hopeful, at the very least, of picking up some cast-off brands.

Analysts believe Allied's optimism may prova well-founded. According to a study by brokers NatWest Securities, using 1995 figures from Jobson's Handbook, an industry reference, GMG, with brands such as Smirnoff and Gordon's Vodka could command about 36.9 per cent of the US vodka market.

By combining Dewars, the top Scotch brand, with third-placed Johnnie Walker Red and others, they would have 46 per cent of US Scotch sales.

The merger partners argue that Scotch drinkers, for example, will quickly switch to bourbon, beer, or all manner of alternatives if their prices are out of line.

Tha NatWest analysts believe the US authorities may be less concerned with market share than with the ability of any one competitor to dictate prices. So the FTC would want to look closely at the markets for Scotch, gin and vodka even if it were to approve the deal - with or without conditions.

Likewise, the European Commission's competition directorate is expected to take a very close interest in the degree of concentration in some markets. In the UK, there is little overlap between the two companies' brands. But in Spain, Greece and Germany, GMG would command a large share of total Scotch sales.

Most analysts seem to believe the merger's main virtue is complementarity, and that therefore it will eventually be approved. But clearance is unlikely before the autumn, from either side of the Atlantic.

The European Commission will declare its conclusions as soon as it has reached them, by October 27 at the latest. The FTC has no deadline, but has a record of seeking to resolve issues as soon as practicable. Its deliberations may last longer, but probably not by much.

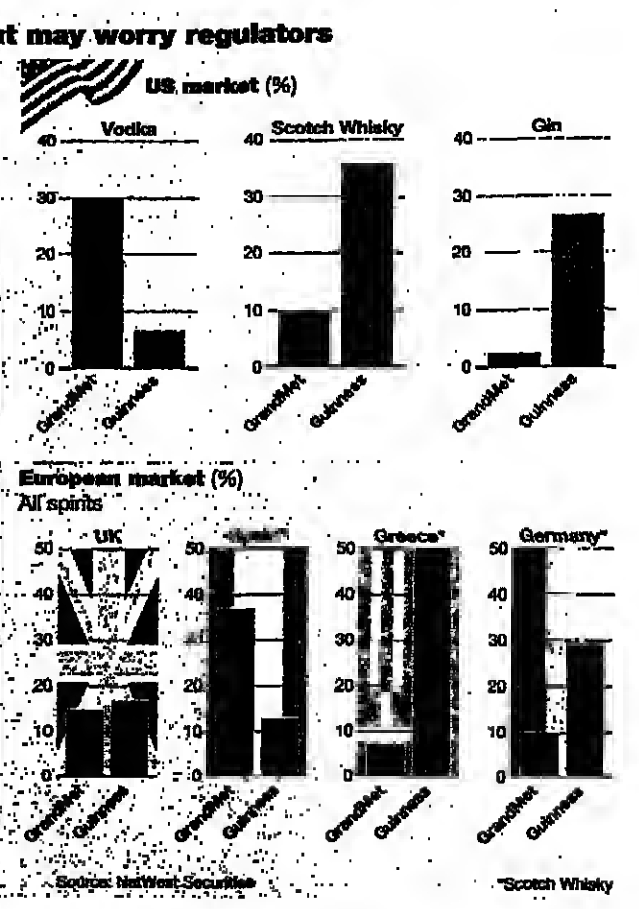
Guinness and GrandMet will be able to argue their case with both sets of regulators and propose solutions to any concerns they may raise. The companies have earmarked about £10m for this critical campaign of persuasion.

But if the merger's benefits are as real as they claim, that cash will quickly be recouped from efficiency gains if the deal is, ultimately, approved.

Concentrations that may worry regulators

George Bull
GrandMet chairman

Tony Greener
Guinness chairman



Source: NatWest Securities

*Scotch Whisky

Man United director cuts stake

By Patrick Harverson

Mr Amer AlMidani a non-executive director of Manchester United, raised £2.95m ($4.8m) this week when he sold 500,000 shares in the Premiership club.

The sale of the shares at 590p each on Tuesday, which reduced Mr AlMidani's stake from 1.1 per cent to 0.33 per cent, is the latest in a string of disposals by the Lebanese businessman, who has been a director of United since 1991.

The latest sale means Mr AlMidani has raised more than £10m from selling United shares sinca the beginning of last year, when his stake in the club was worth more than 4 per cent.

The buyers of Mr AlMidani's stake were not revealed yesterday, but the shares were believed to have been disposed of in the market.

His latest sale comes at a time when football shares, including Manchester United's, have performed poorly on the stock market. Sentiment has turned against the sector in the last few months amid concerns about excessive valuations, overly optimistic forecasts of pay-per-view television revenues, and overcapacity caused by the glut of recent flotations.

Since February, United shares have fallen 18 per cent from a high of 739p. Yesterday, they slipped another 11½p to 599p.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amber Industrial	Yr to Mar 31	23.1	(25.7)	3.03	(4.06)	11	(14.1)	4	Aug 4	4	5.75	5.75
Capital for Cos VCT	Yr to Apr 30	-	(-)	0.215	(-)	3.6	(-)	3.3	Aug 6♦	-	3.3	-
City Site Estates	6 mths to Mar 31		( )		( )		( )	-				
Comino Φ	Yr to Mar 31	7.6	(-)	1.42	(-)	11.46	(-)	-	-	-	-	-
European Motor	Yr to Mar 31	390	(344.8)	8.76	(6.67)	11.2	(8.9)	3.3	Oct 1	3	5.6	5.2
Grainger Trust	6 mths to Mar 31	21.52	(20.1)	11.1L♠	(3.51)	30.8L	(9.8)	1.62	July 1	1.62	-	7
Harris (Philip)	Yr to Mar 31	139	(120)	4.35	(2.05♠)	25.9	(13.3)	7	Aug 4	5.75	10	8.2
Internet Technol Φ	6 mths to Apr 30	1.14	(0.36)	1.17L	(1L)	4.22L	(11.87L)	-	-	-	-	-
Locker (Thomas)	Yr to Mar 31	64.5	(41.2)	3.54♠	(1.79♠)	2.91†	(1.81)	0.7	July 22	0.3	1	0.9
Policy Portfolio	Yr to Mar 31	30.8	(220)	1.77♠	(1.28)	14.6	(10.7)	4.5	Aug 7	4.5	6.5	6.5
Soundtracs Φ	6 mths to Apr 30	2.97	(2.98)	0.161	(0.030L)	1.35	(0.30L)	0.4	Sept 30	nil	-	0.6
Sutcliffe Speakman	Yr to Mar 31	71.7	(38.2)	4.57♠	(2.36♠)	2.26	(2.2)	0.67	Aug 13	0.525	1.1	0.85
Swan (John) & Sons	Yr to Apr 30	1.82	(1.66)	0.514	(0.411)	54.6	(44.2)	22	Aug 19	20	22	20
Victory Corp Φ	11 mths to Mar 31	-	(-)	3.71L	(-)	15.9L	(-)	-	-	-	-	-
Sutcliffe Speakman	Yr to Dec 31	71	(37.3)	4.57	(2.36)	2.26	(2.2)	0.67	Aug 13	0.525	1.1	0.85

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
New Zealand	6 mths to Apr 30	237.75	(255.19)	0.307	(0.354)	2.79	(3.32)	nil	-	nil	-	4.35★

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ★Foreign income dividend. ♦Only payable on shares issued prior to Feb 7.

TECHNOLOGY

Alice Rawsthorn on why the music industry would welcome a new audio format

Hunt for a new tune

Ask any record company what is the best thing that could happen in the global music market, and it will almost certainly say "a new format".

In other words, a new medium for playing music – such as the compact disc which, since its debut in 1982, has steadily eroded the market share of vinyl and cassettes to claim more than 80 per cent of the $40bn-worth of recordings sold at retail worldwide last year.

The popularity of the CD encouraged the consumer electronics industry to develop other formats, albeit with mixed success. Some have flopped, notably Philips's and Matushita's digital compact cassette, and even the most popular, Sony and Philips's MiniDisc, has found it hard to carve a niche.

Record executives are now pinning their bopes on another new format, DVD audio. Their latest medium is envisaged as a musical version of the digital versatile discs, which look exactly like compact discs but have far greater storage capacity that can be manipulated to relay film footage, text and interactive features, as well as sound.

When the music industry was presented with the initial technical specifications for DVD audio, it realised that the resulting product would not be sufficiently superior to compact discs. It has begun a search for new improved technology for DVD audio.

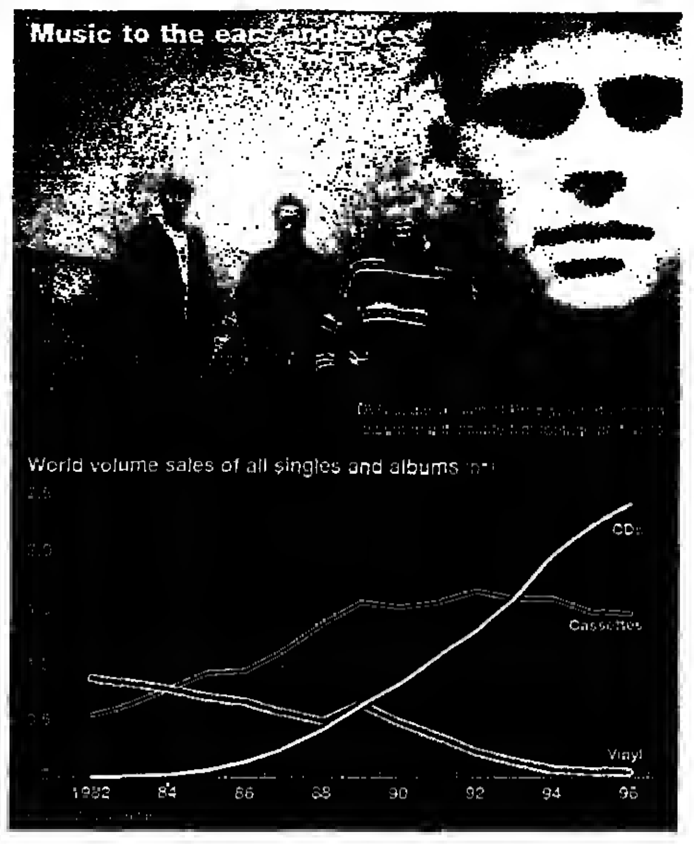
"The recording industry is vigorously campaigning for the highest-quality sound standard for the music of tomorrow," says Hilary Rosen, president of tba Recording Industry Association of America, which represents the US record companies. "The current andio format for DVD is not acceptable as a new industry standard. We can do better."

The stakes are high. Compact disc has proved to be an extremely profitable product for record companies, because consumers not only purchased new releases on it, hot also bought compact disc versions of their favourite old vinyl and cassette recordings.

Its success has been one of the chief contributors to the double-digit growth that the global music industry has experienced for mnch of the past decade. Similarly, one of the main reasons why music sales have slackened in the past year or so is because so many consumers have now completed the process of replacing their old vinyl collections.

Compact disc became so popnlar because it was undeniably superior to vinyl and cassette, in terms of sound quality and durability. Digital compact cassette failed because consumers were not convinced that it was better value than compact disc.

Both the electronics and entertainment industries believe that video DVDs, the first version of digital versatile disc to go on sale, represent a genuine improvement on video cassettes, just as compact discs were an advance on cassette tapes.



Video DVD, like every other version of digital versatile disc, contains up to four layers of information, eacb of which has higher storage capacity than a compact disc, and the difference between the various versions is the way in which that capacity is allocated.

In the case of video DVD, so mnch capacity is used to relay visual images to a far higher standard than video cassettes, that the sound quality is slightly inferior to that of compact disc. Some record companies plan to release video DVD versions of existing music videos, but it is not suitable for use as a musical format.

Hence, the music and electronics industries decided to develop a separate DVD audio format which will combine film footage, text, interactivity and multiple channels, like video DVD, but with superior sound.

The resulting product is likely to resemble a sophisticated music internet site. The DVD audio version of *The Fat Of The Land*, the forthcoming album from the Prodigy, for instance, might include film footage of the band, or promotional videos, together with song lyrics, interviews with tbe musicians and alternative mixes of individual tracks.

So far, the proposed technology for DVD audio has not met the record companies' requirements and they have identified three specific areas of improvement:

- The new discs must relay multi-channel sound, a souped-up version of surround sound.
- DVD audio discs should be playable on existing compact disc machines, and compact discs on DVD audio hardware.
- The discs must provide adequate protection against piracy.

The International Steering Committee, which is composed of members of the music industry led by the US association and the International Federation of tbe Phonographic Industry, which represents record companies worldwide, now plans to find new technical specifications.

It will issue a formal request next month for proposals to electronics manufacturers and research institutes. Several electronics companies, including Sony, Pioneer, Matsushita and Kenwood, are already working on DVD audio technology.

Once the proposed formats have been submitted, the steering committee will assemble teams of record producers and sound engineers to test them. David Stebbings, senior vice-president of technology at the US body, says tests will decide whether the technology meets the music industry's criteria. "It's all about deciding bow much data you can get on a disc, and the quality of that data," be says.

The steering committee hopes to have selected suitable technology by the end of this year, with DVD audio hardware and software scheduled to go on sale two years later. It will then find out whether its technical efforts have produced a new compact disc, or another digital compact cassette.

Ariane aims for confidence

More than a year after a software failure led to the destruction of the European Space Agency's first Ariane 5 launcher, it has targeted September 30 for an attempt at relaunch.

If tba agency had simply corrected the software problem that occurred in the inertial guidance system, or primary navigational mechanism, the rocket could have been relaunched within weeks. Instead, following extensive analyses of the 37-second flight, Aerospatiale, Ariane 5's industrial architect, went beyond the initial recommendations of the independent review board which was set up after the incident.

"We asked every single contractor about everything they'd done," says Shirley Compard of Aerospatiale. "Another failure would throw off the commercial launch schedule, so we want to make sure that this time we get it right."

However, the extensive review has already forced the agency to postpone a second launch three times and the September date could also be pushed back.

Following new tests, the agency is about to make a precautionary change of Flight 502's main engine. This is because of an anomaly found during tests of a silver alloy lining in a similar liquid oxygen turbo pump on the engine originally destined for Flight 504. The same alloy had been supplied on the 502 engine.

But the Ariane 5 series is still within the extra $200m (£123.4m) it received from the ESA last December. While this does not come out of $8bn from the overall development costs of the new series, it should be enough to see the programme through Flight 503. Talks are already taking place with potential customers about the payload on this flight.

Flight 502's objective, meanwhile, is to qualify the rocket for a dual payload so that Ariane 5 can routinely deploy two satellites on every mission.

In spite of the delays, no one at the agency seems worried about scaring off paying customers. "To the contrary," says Frederik Engstrom, the agency's director of launch vehicles. "They should have confidence that our system is so rigorous and stringent."

Bruce Dorminey

Worth Watching · Andrew Baxter

Motoring with metal matrix composites

Metal matrix composites – sections of ceramic fibre encased in a metal "host" material – may finally realise their potential in allowing cars to meet US emission requirements, *writes Carol Kiely.*

These materials are much stronger than the alloys normally used to make engine components. This allows higher compression ratios in the engine, increasing efficiency.

Until recently, prototype engine parts have been successfully manufactured as metal matrix composites only by an expensive process known as squeeze casting. Conventional casting leaves tiny holes in the finished component which weaken it.

Now a collaborating team of scientists from Liverpool University and the UK company Vernaware has solved the problem. Their patented process involves adding small amounts of bismnth to the alloy and increasing the speed at which it is introdnced into the mould containing the pre-formed ceramic fibre.

The result is a material 15 per cent stronger than the parent aluminium alloy, and although made by conventional casting techniques, it still outperforms all existing metal matrix composites at typical engine operating temperatures.

Adam Papworth, Liverpool University; UK, tel (0)151 7945377, fax (0)151 7944675 or e-mail: adamp@liv.ac.uk

Focus on the whys of the X gene

One in every 1,000 women is believed to carry the "fragile X" gene. They pass it on to their sons, and the results range from the prosaic – physical characteristics such as a long, narrow face and prominent ears – to the more serious – slight or severe mental impairment.

Fragile X syndrome gets its name from the broken appearance of the X chromosome when cells are cultured under specific conditions. It is incurable, and the most common cause of genetically inherited mental impairment in males.

The disorder is caused by the inability to produce a protein for which the gene contains the code. Little was known about the gene's mechanisms, but researchers at the University of Illinois in Champaign have found that the protein is synthesised in synapses of the brain – synapses are junctions through which nerve cells communicate. The findings should help researchers in their efforts to understand the disorder.

University of Illinois: US, tel 2173331085, fax 2172440161 or e-mail uinews@uiuc.edu

Ultrasonic sensor bubbles under

When cyclists bave a leak in an inner tube, they immerse it in water and look for bubbles. The same technique is often used in industrial quality control for parts such as gas fittings or pipes. Two of Germany's Fraunhofer Institutes have developed a gas-bubble detector which uses an ultrasonic sensor, rather than the human eye, to watch for bobbles and pinpoint the leak's precise position.

Klaus Dietrich of Fraunhofer Technology Development Group: Germany, tel 7119703620, fax 7119703998.

Clear picture of a counterfeit

A new weapon against forgeries of brand name prodncts has been developed by Jerusalem-based Latent Image Technology. The product is branded with a high-quality picture that remains invisible until the retailer places a clear plastic material on it. The pictures are created with the same lithographic equipment used to make semiconductors.

Latent Image Technology: Israel, tel 25322779, fax 25322673

Euroclear to settle US Treasuries

By Edward Luce

Euroclear, the international settlements house, has been given the go-ahead to undertake clearance and settlement in US Treasuries for non-US clients.

The decision, by the US Securities and Exchange Commission, comes into force from Monday – and opens up a $1,000bn market to Euroclear.

The move comes just four months after Cedel – Euroclear's Luxembourg-based rival – started clearance in US Treasuries for both US and non-US participants.

Mr Denis Peters, of Euroclear, said yesterday the SEC decision was likely to be followed by an exemption that would enable Euroclear to settle T-bills and US agency securities for US clients as well. This would put Euroclear on an even footing with Cedel by opening up the full $10,000bn in US government securities to the Brussels-based clearing house. About $9,000bn of the $10,000bn worth of US Treasury and government bonds in circulation are held by US-based houses.

"This will opens up the most liquid and active class of securities to our clients," said Mr Peters. "It will enable them to deposit US securities with Euroclear and use securities for collateral and cross-collateral transactions."

Euroclear, which has an annual securities turnover volume of $35,000bn, would not estimate how much the move would boost its turnover, but said it would be substantial.

Euroclear says it will bring in the new facility in three phases. First, non-US clients will be able to deposit US securities from June 23. Second, Euroclear hopes it will receive an exemption from the SEC for US-based participants later this year. Third, it will gradually introduce settlement and clearance in US agency securities within the next 12 months.

The final phase, which will add 560,000 new securities to Euroclear's books, is considered the most difficult logistically.

At present, Euroclear handles about 90,000 securities, including Yankee and global bonds. The addition of US government securities, including paper issued by the Federal Mortgage Agency (Fannie Mae) and the other big Washington-based finance houses, will more than quintuple the securities that can be deposited at Euroclear.

"Obviously this will take some time to sort out," said Mr Peters. "We will be updating our computer systems and looking at staffing levels to cope with this."

Euroclear hopes to have in place a "real-time" settlement capacity within 12 months – a significant improvement on the T+3 system currently in practice. This will enable clients to settle instantly from any where in the world.

Both Euroclear and Cedel were given permission in March 1996 to settle and clear UK gilt bonds. Most gilt clearance still takes place in London, bnt both houses say they have won some business.

Italy and Spain outperform in Europe

GOVERNMENT BONDS

By Michael Lindemann in London and John Labate in New York

Italy and Spain were the most remarkable performers among European bond markets yesterday, making what one economist described as a "final quest for value" ahead of the proposed European single currency.

ITALIAN BTPs charged higher. The September BTP future settled at 133.08, up 0.50, but headed to 133.30 in after-hours trading. The yield spread of BTPs over German bunds tightened six basis points to a record 126 points.

"Everyone's convinced that Maastricht is right around the corner and they are behaving accordingly," one trader said.

SPANISH BONOS followed suit. Mr Henrik Lumholdt, chief economist at Bank of America in Madrid, said investors in Spain were making one last effort to drive the spread over bunds lower in anticipation of Spain's Emu membership.

"This is the final quest for value before Emu is 100 per cent discounted," he said. "A lot of investors saw the Amsterdam summit as the last hurdle, disregarding completely the problems that might still arise with budget deficits."

Mr Lumholdt said, there was still "a sizeable risk of a blow-up in Germany" over the size of an acceptable budget deficit.

The September bono future picked up 0.19 to settle at 116.60 while the yield spread over bunds tightened 3 basis points to 62 points.

UK GILTS, meanwhile, took a drubbing after May retail sales figures came in much higher than expected, showing a 1.1 per cent month-on-month rise and a 5.3 per cent year-on-year rise – in contrast to the anticipated 4.5 per cent increase.

The Office of National Statistics insisted the windfalls from building society conversions had not influenced the May data. Analysts said the flotation of the Halifax building society was clearly too late to influence data, but it was difficult to work out whether earlier building society conversions had contributed to higher consumer spending.

Mr Kevin Adams, gilts analyst at BZW, said the data underlined the need for Mr Gordon Brown, chancellor, to come down hard on consumers in his July 2 budget, thereby pre-empting a further rise in interest rates.

The September gilt future settled at 113$\frac{15}{32}$, down $\frac{19}{32}$, while the spread of gilts over bunds widened eight basis points to 153 points, the biggest since Mr Brown granted virtual Bank of England independence in early May.

GERMAN BUNDS edged upwards, cheered by rumours that the Ifo business climate index, out today, would be lower.

Analysts suggested markets may also have derived succour from comments by Mr Franz-Christoph Zeitler, a Bundesbank council member, who insisted on strict adherence to the Maastricht budget criteria.

"Once the states have agreed on 3 per cent, they must, in the interests of credibility, stick to that goal," Mr Zeitler said. He also said Germany had a "realistic" chance of meeting the budget deficit criteria in 1997.

The September bund future settled at 101.34, up 0.02, but rose as high as 101.49 in after-hours trading.

US TREASURY prices rose sluggishly after a light morning. At midday, the benchmark 30-year Treasury bond was up $\frac{1}{8}$ to 99, driving the yield downward to 6.697 per cent on thin volume. The 10-year bond was $\frac{3}{32}$ higher at 101$\frac{3}{32}$, yielding 6.4 per cent, while the two-year notes issue was up $\frac{1}{32}$ to 100$\frac{1}{32}$, yielding 6.007 per cent.

Central banks were regarded as leading buyers yesterday morning, following the dip in the market on the back of May inflation figures.

"The banks have excess cash and are buying on weakness," said Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York.

BayerLB launches 10-year $1bn global

INTERNATIONAL BONDS

By Edward Luce

BayerLB, the German Landesbank, topped the bill in another frantic session of US dollar-denominated issuance yesterday. With more than $4bn in new dollar issues and at least $3bn expected today – including at least $1bn from the Russian Federation – this week is expected to break all volume records in the dollar sector.

BayerLB's $1bn global bond was its first senior offering in a 10-year maturity and the first unsecured global bond from a German Landesbank.

Officials at Merrill Lynch and J.P. Morgan, joint arrangers of the deal, reported strong take-up from Japanese and other east Asian accounts, including central banks. But less than 10 per cent of the paper went to US based investors.

"Spreads on globals and eurobonds are quite a bit tighter than in the Yankee bond market, so it is difficult to tempt US investors along," said one syndicate official.

The benchmark issue, which was priced to yield 25 basis points over 10-year Treasuries, was trading flat to its re-offer price in the secondary markets after launch. "We expect to see a lot more Landesbanks entering the global sector to find new investor bases before the D-Mark disappears," said one trader.

BANQUE PARIBAS tapped the floating-rate market with a generously priced $1bn five-year offering. Re-offered at a spread of 15 basis points over Libor, the bond was well-received by investors.

The issue, which inaugurates a $4bn Paribas funding programme over the next 18 months, was lead-managed by Paribas. The proceeds will help refinance forthcoming maturities, as well as short-term Paribas loan obligations.

"Banks always price deals cheaply when they are issuing in their own name," said one investor. "They are very careful to ensure it is successful."

Mindful, perhaps, of that advice, MERRILL LYNCH launched the largest floater in sterling this year, a £300m five-year bond priced to yield 13 basis points over gilts. According to one official, the deal reflected investor uncertainty about rising UK interest rates and volatility in the main European currencies, and quickly tightened to a spread of 12 basis points over gilts.

"The UK yield curve is very flat after the recent interest rate rises," said a syndicate member. "It makes sense to tap the floating-rate sector in these conditions."

WIZARD FINANCE, a special purpose vehicle set up offshore by Bank of Tokyo-Mitsubishi, issued the first asset-backed deal of its type by a Japanese bank. The Y93.15bn offering, split into $525m and Y33.5bn three-year tranches, was securitised by high-quality loans, according to an official at Tokyo-Mitsubishi in London which led the deal.

The dollar portion was offered at a spread of 18 basis points over Libor. The yen tranche carried a coupon of 1.6 percentage points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
BayerLB New York Branch(j)	1bn	6.625#	99.618R	Jun 2007	0.325R	+25(6⅝%May07)	Merrill Lynch/JP Morgan
Banque Paribas‡	1bn	(a)	99.848R	Jul 2002	0.15R	-	Paribas
Wizard Finance‡	525	(b)	99.94	Jul 2000	0.45	-	Tokyo-Mitsubishi Intl
American Express Co	500	6.75#	99.624R	Jun 2004	0.35R	+39(7¼%May04)	Lehman Brothers Intl
Bankers Trust NY Corp(c)‡	300	(c1)	99.794R	Jul 2002	0.175R	-	Deutsche/HSBC Markets
Crédit Local de France	300	6.50	99.925R	Jul 2001	0.225R	+22(6⅝%May00)	ABN Amro/DKB Intl
SNCF	200	6.00	99.15R	Jul 2000	0.1875R	+5(6⅞%May00)	Deutsche Morgan Grenfell
DSL Bank	150	6.50	99.62R	Jul 2003	0.275R	+15(6⅞%May00)	UBS
Macerich Co(d)§	125	(7-7½)#	100.00	Dec 2002	2.50	-	Lazard Capital Markets
Seibu Department Stores*‡	90	(e)	100.00	Jul 2002	0.30	-	DKB International
■ YEN							
Wizard Finance	33.5bn	1.62	100.00	Jul 2000	0.45	-	Tokyo-Mitsubishi Intl
■ STERLING							
Merrill Lynch & Co‡	300	(f)	99.768R	Jul 2002	0.175R	-	Merrill Lynch Intl
GECC	100	7.00	99.272R	Jul 2002	0.25R	+12½(7Jun02)	SBC Warburg
■ GUILDERS							
ABN Amro Bank	400	6.125	99.46R	Jun 2009	0.425R	+42(i)	ABN Amro Hoare Govett
■ LUXEMBOURG FRANCS							
BNG(l)	2bn	5.50	102.25	Dec 2005	2.00	-	ABN Amro/BGL
■ ESCUDOS							
Eurofima‡	10bn	(g)	100.00	Jul 2007	0.20	-	BSN Portugal
■ RAND							
World Bank(h)	250	15.375	100.05R	Jun 1998	1.00	-	Credito/Toronto Dom

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. *Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +¼%. b) 6-mth Libor +18bp. c) Callable from Jul 00 at par. c1) 3-mth Libor +6¼bp. d) Priced later this week; indicated conv premium 10-13%. Callable after 5 yrs at par. e) 6-mth Libor +20bp. f) 3-mth Libor +7½bp. g) 6-mth Lisbor +10bp; max 9%. h) R500m launched 4/4/97 increased to R750m. i) Over interpolated yield. j) Long last coupon. l) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.8198	-0.470	7.07	7.23	7.66
Austria		5.750	04/07	98.8500	+0.020	5.90	5.97	5.75
Belgium		6.250	03/07	103.1800	+0.010	5.81	5.87	5.87
Canada *		7.250	06/07	107.4000	-0.630	6.24	6.36	6.54
Denmark		7.000	06/07	104.7500	+0.040	6.36	6.26	6.35
France	BTAN	4.750	03/02	100.4974	-	4.63	4.69	4.70
	OAT	5.500	04/07	99.2100	-0.010	5.60	5.72	5.68
Germany Bund		6.000	07/07	102.0900	+0.020	5.73	5.80	5.75
Ireland		8.000	08/06	109.7900	+0.070	6.54	6.72	6.61
Italy		6.750	02/07	99.2000	+0.360	6.86†	7.05	7.24
Japan	No 145	5.500	03/02	117.0547	-0.110	1.63	1.61	1.62
	No 182	3.000	09/05	104.3124	-0.220	2.38	2.40	2.59
Netherlands		5.750	02/07	101.0800	+0.020	5.60	5.66	5.63
Portugal		9.500	02/06	121.1700	+0.210	6.25	6.43	6.55
Spain		7.350	03/07	107.0400	+0.200	6.34	6.51	6.67
Sweden		8.000	08/07	108.4882	+0.230	6.81	6.93	7.04
UK Gilts		7.000	06/02	99-27	-13/32	7.03	7.01	5.89
		7.250	12/07	100-27	-17/32	7.13	7.11	7.01
		9.000	10/08	113-27	-19/32	7.19	7.17	7.08
US Treasury *		6.625	05/07	101-14	-	6.43	6.55	6.75
		6.625	02/27	98-25	-2/32	5.72	6.83	6.90
ECU (French Govt)		7.000	04/06	107.3200	-0.060	5.91	5.99	6.02

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.04
Prime rate	8½	Two month	-	Three year	6.18
Broker loan rate	7¾	Three month	5.08	Five year	6.31
Fed.funds	5½	Six month	5.31	10-year	6.43
Fed.funds at intervention	-	One year	5.63	30-year	6.72

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	128.62	128.88	-0.06	128.96	128.60	102,503	201,311
Dec	97.76	97.78	-0.08	97.76	97.78	2	1,575
Mar	97.76	97.78	-0.06	97.78	97.76	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	Jul	Sep	PUTS Jun	Jul	Sep
126	2.89	3.01	3.14	0.01	0.14	0.28
127	1.90	2.15	2.32	0.02	0.26	0.45
128	0.99	1.39	1.60	0.11	0.51	0.72
129	0.31	0.77	1.00	0.43	0.89	1.12
130	0.06	0.36	0.56	1.16	-	-

Est. vol. total, Calls 6,124 Puts 13,552. Previous day's open int., Calls 136,091 Puts 163,568.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.33	101.34	+0.02	101.49	101.11	177219	246904
Dec	100.35	100.39	+0.02	100.40	100.35	9	1958

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
10100	0.45	0.88	1.11	1.16	0.11	0.54	0.77	1.77
10150	0.16	0.60	0.83	0.95	0.32	0.76	0.99	2.06
10200	0.04	0.39	0.60	0.77	0.70	1.05	1.26	2.38

Est. vol. total, Calls 12598 Puts 17819. Previous day's open int., Calls 180277 Puts 239599

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	132.55	133.08	+0.50	133.39	132.31	58105	84198
Dec	105.90	105.83	+0.40	105.90	105.90	50	300

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
8000		25.83		0
8050		25.33		0
8100		24.83		0

Est. vol. total, Calls 13992 Puts 3528. Previous day's open int., Calls 48203 Puts 59796

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.45	116.59	+0.19	118.71	118.11	88,703	92,902

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114-15	113-28	-0-19	114-15	113-27	169	1066
Sep	114-04	113-15	-0-19	114-05	113-12	85886	163294

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
113	0-39	1-13	1-36	2-06	0-09	0-47	1-06	2-02
114	0-08	0-44	1-02	1-43	0-42	1-14	1-36	2-37
115	0-02	0-22	0-41	1-19	1-36	1-56	2-11	3-12

Est. vol. total, Calls 3290 Puts 927. Previous day's open int., Calls 42447 Puts 25386

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	95.74	95.74	-0.08	95.80	95.46	441	4,336

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	112-05	112-03	-0-04	112-05	111-30	13,788	32,170
Sep	111-26	111-23	-0-05	111-27	111-17	374,061	411,186
Dec	111-11	111-10	-0-04	111-11	111-05	322	25,130

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	123.99			124.09	123.85	1147	n/a
Dec	123.40			123.40	123.38	55	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Jun 18	Day's change %	Tue Jun 17	Accrued interest	xd adj. ytd		Low coupon yield Jun 18	Jun 17	Yr. ago	Medium coupon yield Jun 18	Jun 17	Yr. ago	High coupon yield Jun 18	Jun 17	Yr. ago
1 Up to 5 years (20)	119.81	-0.21	120.05	2.09	5.38	5 yrs	7.06	6.96	7.48	7.10	7.01	7.52	7.16	7.07	7.62
2 5-15 years (20)	151.77	-0.44	152.44	2.10	5.93	15 yrs	7.16	7.10	8.30	7.21	7.15	8.31	7.19	7.11	8.38
3 Over 15 years (6)	178.61	-0.56	179.61	5.45	5.02	20 yrs	7.20	7.15	8.38	7.22	7.16	9.39	7.19	7.11	8.43
4 Irredeemables (5)	206.39	-0.65	207.74	1.92	7.10	Irred.†	7.30	7.25	8.41						
5 All stocks (51)	146.31	-0.38	146.88	2.72	5.68										

Index-linked							Inflation 5% Jun 18	Jun 17	Yr. ago	Inflation 10% Jun 18	Jun 17	Yr. ago
6 Up to 5 years (2)	204.45	-0.16	204.82	1.30	3.03	Up to 5 yrs	3.61	3.55	2.75	2.92	2.86	1.16
7 Over 5 years (10)	196.14	-0.54	197.21	1.65	2.86	Over 5 yrs	3.69	3.64	3.85	3.47	3.42	3.63
8 All stocks (12)	195.95	-0.50	196.94	1.60	2.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 18	Jun 17	Jun 16	Jun 13	Jun 12	Yr ago	High*	Low*
Govt. Secs. (UK)	96.29	96.68	96.94	96.79	96.84	92.03	97.51	93.31
Fixed Interest	122.67	122.24	122.14	120.99	120.81	111.39	122.14	115.32

Gilt Edged Activity Indices

	Jun 17	Jun 16	Jun 13	Jun 12	Jun 11
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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UK GILTS PRICES

	Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Shorts" (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		6.99	6.34	100$\frac{1}{32}$	-$\frac{1}{32}$	101$\frac{1}{32}$	100$\frac{1}{32}$
Treas 8¾pc 1997‡‡		8.72	6.38	100$\frac{11}{32}$	—	107$\frac{1}{32}$	100$\frac{11}{32}$
Exch 15pc 1997		14.58	6.54	102$\frac{27}{32}$	-$\frac{1}{32}$	111$\frac{1}{32}$	102$\frac{27}{32}$
Exch 9¾pc 1998		9.56	6.89	101$\frac{3}{4}$	-$\frac{1}{16}$	105$\frac{1}{32}$	100$\frac{1}{32}$
[illegible]							

	Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
Funding 3½pc 1999-4		4.04	5.91	86$\frac{11}{32}$	-$\frac{1}{32}$	87$\frac{1}{32}$	79$\frac{1}{4}$
Conv 9½pc 2004		8.38	7.13	113$\frac{11}{32}$	-$\frac{1}{2}$	114$\frac{3}{32}$	106$\frac{7}{8}$
Treas 6¾pc 2004‡‡		6.89	7.90	98$\frac{1}{32}$	-$\frac{7}{16}$	99$\frac{1}{32}$	92$\frac{7}{8}$
Conv 9½pc 2005		8.34	7.14	113$\frac{7}{8}$	-$\frac{1}{2}$	122$\frac{3}{32}$	106$\frac{13}{32}$
Exch 10½pc 2005		8.71	7.15	120$\frac{3}{8}$	-$\frac{1}{2}$	121$\frac{1}{32}$	117$\frac{1}{2}$
[illegible]							

Index-Linked	Notes	Yield (1)	(2)	Price £	+ or -	52 week High	Low
4⅝pc '98‡‡	(135.6)	-	2.86	114	-$\frac{1}{32}$	114$\frac{3}{8}$	113$\frac{1}{32}$
2½pc '99		2.08	3.26	181$\frac{1}{4}$	-$\frac{1}{4}$	181$\frac{1}{32}$	179$\frac{1}{32}$
2½pc '01	(78.3)	2.91	3.81	185$\frac{1}{4}$	-$\frac{1}{4}$	187$\frac{1}{32}$	179$\frac{1}{32}$
2½pc '03	(78.8)	3.14	3.84	181$\frac{1}{32}$	-$\frac{1}{32}$	184$\frac{1}{4}$	174$\frac{1}{4}$
[illegible]							

Other Fixed Interest

[illegible]

• 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on June 18

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 05	1500	99$\frac{1}{4}$	99$\frac{1}{2}$	-$\frac{1}{8}$	6.65
ABN Amro Bank 7¼ 05	1000	101$\frac{3}{4}$	102		7.08
African Dev Bk 7⅜ 23	600	100$\frac{5}{8}$	101$\frac{1}{8}$	-$\frac{1}{8}$	7.32
Alberta Province 7⅛ 98	1500	101$\frac{7}{8}$	102		6.13
Argentina 11⅜ 17	2000	111$\frac{1}{2}$	111$\frac{7}{8}$	+$\frac{1}{8}$	10.27
[illegible]					

	Issued	Bid	Offer	Chg	Yield
Spain 7¼ 03	4000	110$\frac{1}{4}$	110$\frac{7}{8}$		5.03
Volkswagen Intl Fin 7 03	1500	108$\frac{1}{4}$	108$\frac{3}{8}$		5.34
World Bank 5⅞ 05	3000	104$\frac{3}{8}$	104$\frac{1}{2}$	-$\frac{1}{8}$	5.05
World Bank 6⅝ 02	3000	108	108$\frac{1}{8}$	+$\frac{1}{8}$	4.80
World Bank 7¼ 00	3000	110$\frac{1}{8}$	110$\frac{1}{4}$		5.49
[illegible]					

	Issued	Bid	Offer	Chg	Yield
Abbey Natl Treasury 8 03 £	1000	102$\frac{1}{8}$	102$\frac{3}{8}$	-$\frac{1}{2}$	7.52
British Land 8⅞ 23 £	150	104$\frac{5}{8}$	105$\frac{1}{8}$	-$\frac{1}{2}$	8.61
Denmark 6¾ 98 £	800	99$\frac{1}{2}$	99$\frac{5}{8}$	-$\frac{1}{8}$	7.17
Depfa Finance 7⅛ 03 £	500	97$\frac{3}{4}$	98	-$\frac{1}{2}$	7.57
EIB 8 03 £	1000	103$\frac{1}{4}$	103$\frac{1}{2}$	-$\frac{1}{2}$	7.31
Finland 7 00 £	500	99$\frac{5}{8}$	99$\frac{7}{8}$	-$\frac{1}{4}$	7.11
[illegible]					

FLOATING RATE NOTES — [illegible]

CONVERTIBLE BONDS — [illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

CURRENCIES AND MONEY

Dollar survives Japanese trade data

MARKETS REPORT

By Simon Kuper

The dollar held firm against the yen yesterday although Japan's trade surplus jumped even higher than expected.

The 322 per cent leap in the year-on-year surplus in May – a figure keenly awaited – failed to rock the dollar. Much of the rise had been priced in, and traders are sitting tight ahead of this weekend's Group of Seven meeting in Denver, and tomorrow's bilateral Japan-US summit.

Some currency strategists expect the US to keep calling for Japan's surplus to fall. That could boost the yen.

But Mr Hans Günter Redeker, senior economist at Chase in London, said the yen's 11 per cent rise last month had made the Japanese surplus less of an issue. The yen's gains would start hitting the surplus in three to four months, he said, easing tensions between Washington and Tokyo. Strategists said that a Bank of Japan statement yesterday indicating further easy monetary policy also held back the yen. The dollar was virtually unchanged late yesterday at Y113.41.

The D-Mark rose in Asian trading after a Bundesbank report and comments from Mr Lamberto Dini, the Italian foreign minister, revived talk of a delay to European monetary union. Emu had seemed to be on a safe path after deals struck at the European Union's Amsterdam summit on Monday.

The bank's report said Germany's budget deficit this year could be larger than expected, hurting German chances of meeting the fiscal criteria for Emu. The report also implied that the D-Mark had fallen far enough against the dollar since 1995. Current D-Mark levels "should to a great extent reflect economic fundamentals", the bank said.

Mr Dini said that Italy would meet the Emu criteria, but added that France might not.

In late trading yesterday the D-Mark was 0.3 pfennigs firmer against the dollar at DM1.731. But it was little changed against sterling, which profited from a jump in UK retail sales figures for May. The quarterly growth rate is the highest since July 1988. Increasingly economists think that the Bank of England's monetary policy committee will raise interest rates again this summer, for the third time since May. UK base rates are at 6.5 per cent.

On its trade weighted index against a basket of currencies, the pound closed at 100.0 – a key resistance level, said strategists.

■ The last G7 meeting, in Washington on April 27, produced a statement calling for the dollar's rise to cease. To the markets' surprise, the dollar then sank – due more to an expected rise in Japanese interest rates than to policymakers' wishes.

No such spectacular currency move is expected to follow this week's meeting. Mr Tim Fox, treasury economist at Standard Chartered in London, said any Denver statements on exchange rates would probably applaud the recent slide in the dollar, rather than call for further change. Japan's mountainous trade surplus remains an issue. But Mr Robert Rubin, US treasury secretary, has often implied that Japan should reduce the surplus by stimulating domestic demand, rather than by weakening the yen. The Denver summit is likely to focus chiefly on issues far from the currency markets, such as the closure of the Chernobyl nuclear plant.

■ The Israeli shekel remains lively.

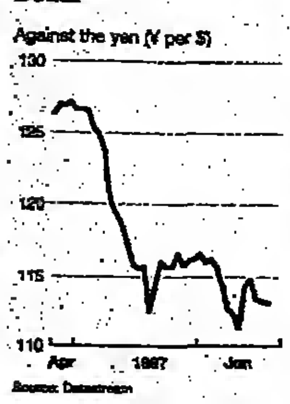
Israel cut its key lending rate by 1.2 percentage points to 12.7 per cent yesterday, in a new bid to stop the currency rising too fast. The shekel has been fuelled by high interest rates.

On Tuesday the government had tried to stop the surge by backing a widening of the currency's trading band. The shekel, which had been testing the top of its 7 per cent band, will now be allowed to trade up to 21 per cent above its mid-level. The permitted range below the mid-level remains 7 per cent.

The central bank hopes it will now no longer have to intervene so often to weaken the shekel. But the move prompted Mr Dan Meridor, finance minister, to resign. He believes the changes will cause the shekel to rise further. The currency's representative rate against the dollar was fixed slightly weaker yesterday at 3.4200.

Dollar

Against the yen (¥ per $)



Source: Datastream

■ Pound in New York

Jun 18	– Latest –	– Prev. close –
£ spot	1.6400	1.6395
1 mth	1.6388	1.6383
3 mth	1.6361	1.6359
1 yr	1.6243	1.6253

■ OTHER CURRENCIES

Jun 18	£	$
Czech Rp	52.4821 - 52.6914	32.0230 - 32.1250
Hungary	303.531 - 305.781	185.170 - 185.210
Iran	4823.50 - 4917.60	3000.00 - 3000.00
Kuwait	0.4955 - 0.4962	0.3023 - 0.3025
Poland	5.3013 - 5.3095	3.2341 - 3.2371
Russia	9440.15 - 9449.19	5758.00 - 5761.00
UAE	6.0200 - 6.0240	3.6725 - 3.6727

POUND SPOT FORWARD AGAINST THE POUND

Jun 16		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.9271	-0.0572	158 - 384	19.9727	19.8373	19.8736	3.2	19.7856	2.8	-	-	102.7
Belgium	(BFr)	58.4256	-0.1863	670 - 846	58.5700	58.1630	58.2708	3.2	57.9558	3.2	56.5258	3.3	102.5
Denmark	(DKr)	10.7843	-0.0333	794 - 892	10.8078	10.7313	10.7588	2.8	10.7083	2.8	10.4848	2.8	105.1
Finland	(FM)	8.4869	-0.0021	781 - 956	8.5210	8.4270	-	-	-	-	-	-	82.1
France	(FFr)	9.5525	-0.0275	483 - 566	9.5703	9.5174	9.5283	3.0	9.4804	3.0	9.2578	3.1	105.1
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J P Morgan index
Europe													
Austria	(Sch)	12.1529	-0.0479	497 - 561	12.1755	12.1235	12.1304	2.2	12.0617	2.3	11.8329	2.6	102.3
Belgium	(BFr)	35.6320	-0.153	070 - 570	35.7070	35.5410	35.557	2.5	35.402	2.6	34.682	2.7	102.4
Denmark	(DKr)	6.5770	-0.0273	760 - 780	6.5885	6.5587	6.5652	2.1	6.5405	2.2	6.4295	2.3	104.3
Finland	(FM)	5.1759	-0.0068	721 - 796	5.1944	5.1491	5.164	2.8	5.1396	2.8	5.0314	2.8	81.6
France	(FFr)	5.8258	-0.023	250 - 265	5.8341	5.8167	5.8141	2.4	5.7914	2.4	5.6763	2.6	104.4
[illegible]													

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9325	0	0.03	0.04	0	0.22	0.41
9350	0	0	0.01	0.25	0.44	0.63
9375	0	0	0	0.50	0.69	0.87

Est. vol. total, Calls 4175 Puts 14750. Previous day's open int., Calls 184069 Puts 182089

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.50	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.50
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.25		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.25		

● Members of London Investment Banking Association

* In administration

WORLD INTEREST RATES

MONEY RATES

June 18	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.50	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.45	5.55	5.63	5.80	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

COMMODITIES AND AGRICULTURE

Big increase in demand for energy

By Gary Mead

Global energy demand grew by 3 per cent in 1996, the highest rate of growth since 1988, British Petroleum said yesterday.

Publishing it's annual statistical review of world energy, BP said the growth in demand was more than double the average rate of growth of 1.4 per cent for the period 1986-96.

Last year was "an exceptionally strong year for energy consumption, primarily due to an upturn in the economic cycle and unusually cold weather in the northern hemisphere," said Mr Peter Davies, editor of the review. However, he saw "few upward market price pressures" in the context of steadily increasing energy supplies continuing to outstrip demand.

Total proven oil reserves increased by 2 per cent, or 20bn barrels, in 1996 to 1,036.9bn barrels, with the Middle East preserving its dominant share at 65 per cent. The ratio of reserves to production fell slightly to 42.2 years. World oil consumption rose by 2.4 per cent to 69.55m barrels a day.

The report says in 1996 the international oil market was "characterised by strong prompt prices, weak forward prices, tight inventories and continued uncertainty over Iraq".

The price for Brent crude averaged $20.80 a barrel, up more than 20 per cent on 1995. However, world supply increased by almost 2.4m barrels a day, "substantially more than demand, with all areas of the world expanding production" which permitted rebuilding of stocks. "The general [energy] picture now is remarkably stable," said Mr Davies.

Oil production from outside the Organisation of Petroleum Exporting Countries increased by 3.8 per cent and is now annually "accelerating at 700,000 barrels per day". Opec members, who accounted for 40.5 per cent of global production, increased production by 2.8 per cent to almost 34.3m barrels a day.

Global gas consumption rose 4.7 per cent (to 2,190.6bn cubic metres), significantly above the 2.8 per cent average annual rate of growth in the last decade.

The former Soviet Union region returned to modest growth in consumption, of 0.7 per cent, following a fall of 22 per cent between 1991 and 1995, and there was exceptionally strong growth of 10.7 per cent in Europe.

But in the US, the world's largest market, consumption was up a modest 1.9 per cent as relatively high gas prices and lower coal prices encouraged power generators to switch fuel.

Source: BP Statistical Review of World Energy 1997

Move to restore order to palladium market

MARKETS REPORT

By Kenneth Gooding and Gary Mead in London and Laurie Morse in Chicago

The Tokyo Commodity Exchange said yesterday it was working with the London Platinum and Palladium Market Association to restore orderly trading to the palladium market, which is in the grip of a vicious "squeeze". A Tocom official said the exchange would shortly introduce a limit on positions for nearby futures.

Traders suggested that, while this might not have any impact on the underlying problems, it showed Tocom was ready to act prevent manipulation.

It was suggested that private investors had sold short about 30 tonnes of palladium and some could not deliver on their contracts. Traders suggested negotiations involving some Japanese trading houses were going on in an attempt to solve the problems so the market would not be badly damaged.

Palladium closed in London last night down $3.50 a troy ounce at $194. Platinum fell by $9.50 an ounce to $410.

World coffee futures prices failed to consolidate the rally sparked on Tuesday.

On the London International Financial Futures Exchange the September future closed down $45 at $1,865 a tonne. On the Coffee, Sugar and Cocoa Exchange in New York the September contract was 10.70 cents lower at midday at 180 cents a pound, having touched 175 cents earlier.

On the International Petroleum Exchange Brent crude oil for August delivery initially gained 10 cents, on bullish news concerning Iraqi exports; but in later trading it had slipped 23 cents to $17.85 a barrel.

The price for three-month copper struggled to hold on to its peak of the day, of $2,600 a tonne, and finished $10 higher at $2,592 on the London Metal Exchange.

Trading in "hamburger" futures so far hasn't sizzled on the Chicago Mercantile Exchange. The CME's new boneless beef futures contract, which opened on Monday, has seen average daily volume below 100 contracts. Traders are showing no preference for fat content: dealing in 50 per cent lean and 90 per cent lean boneless beef has been equally slack.

New Zealand farmers face another tough year

By Terry Hall in Wellington

New Zealand farmers were yesterday told to expect another tough year, with global markets unlikely to turn in their favour.

The country's Ministry of Agriculture, in its annual review, forecasts little change in returns for most commodities. It says the value of agricultural production in the year to March 1998 should rise 1.5 per cent, which is likely to be lower than inflation.

The ministry is counting on higher returns from increased volumes of dairy and beef production and small rises in wool, sheep-meat and pip-fruit prices. However production of wool, sheep-meat, kiwi-fruit and pip-fruit are expected to fall.

Even this unpromising forecast will be seen as positive after a dismal year to March in which the ministry estimates that the value of agricultural production fell 3 per cent.

The review says the poor performance in the past year was mainly owing to lower production and falling prices for cattle and wool. These falls were only partially offset by increased tonnages of dairy products and higher sheep-meat prices.

The slowdown in farming was also reflected in a general fall in growth rate in the New Zealand economy, from 3.5 per cent to 2.7 per cent. Overall, farmers' spending on their properties rose 2 per cent in 1996-97, although the rise was restrained to some extent by the stronger New Zealand dollar leading to lower prices for imports such as vehicles.

The continuing tough times in the rural sector are expected to lead to further falls in fertiliser sales next season. The review notes that farmers' returns were badly hit over the past two years by the rise in the value of the New Zealand dollar against leading currencies.

The review says the average sheep and beef farmer should see some revenue gains this year and next year due to higher sheep-meat prices, which are "only just exceeding" the impact of low wool prices and a steady drop in beef production.

There are hopes for some improvement in wool prices next season, which should more than offset lower production and an expected drop in sheep-meat prices.

COMMODITIES NEWS DIGEST

BHP joins Shell in oil sands venture

BHP, the Australian resources group, is to join Shell Canada, a subsidiary of Royal Dutch Shell, in the planned development of a C$1bn (US$722m) oil sands project in Alberta. The project, about 70km north of Fort McMurray, envisages initial production of about 120,000-150,000 b/d of bitumen, a heavy syrup that must be refined to produce synthetic crude oil. Start-up is scheduled for 2002. It is the largest of a number oil sands projects or expansions being investigated in Alberta.

Shell has already filed public disclosure documents, outlining its plans for the project. BHP has now agreed to join the scheme, initially through a contribution to the pre-feasibility study and by paying 25 per cent of its estimated C$10m-C$20m cost. The Australian company said the agreement with Shell provided for it to be involved in "all aspects" of the project, should development go ahead. This would include a potential joint venture stake if the project is thought to be viable.

BHP said its substantial expertise in earth-moving could be of use, given that the project envisages shifting around 350,000 tonnes of overburden and sands per day. The efficiency with which this can be done has a bearing on project costs and hence the viability of the development. The pre-feasibility study is likely to take place over the rest of 1997.

Nikki Tait, Sydney

Greece to choose gold site

IGME, Greece's state-controlled mining research institute, will complete a study on the site of a $150m gold-extraction plant in northern Greece at the end of this month, officials said. IGME is expected to recommend a choice of sites for the plant, to be built by TVX Gold of Canada, which acquired the assets of Cassandra Mines, a bankrupt state mining operation, under Greece's privatisation programme.

Greece's industry ministry commissioned the study last October after residents of Olympiada, close to the main mining site, objected to construction of the plant near their village. They claimed it would damage prospects for tourism based on the area's coastline and archaeological remains. Ms Anna Diamantopoulou, industry under-secretary, is expected to make a decision in July.

TVX Gold has started refurbishing the lead and zinc mine near Olympiada. Gold would be extracted from ore residues, including a 200,000 tonne stockpile left over from earlier mining activity.

Kerin Hope, Athens

CBOT plans to drop bushel

Prices for Chicago Board of Trade corn, wheat, and soyabean futures will be quoted in terms of contracts, rather than bushels, from the start of next year. The switch, which changes more than 100 years of market practice, was confirmed on Tuesday when CBOT members overwhelmingly approved the proposal.

The move was proposed last year, when CBOT decided contract-based quotations would be more appropriate for institutional traders. Currently, CBOT agricultural futures are quoted in dollars per bushel, and each contract is comprised of 5,000 bushels. Under the new system, futures will be quoted in dollars per contract. The contract size will not change.

Laurie Morse, Chicago

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1569-70	1594-5
Previous	1552-53	1579.5-80.0
High/low		1600/1587
AM Official	1571-2	1595-6
Kerb close		1592-3
Open int.	255,881	
Total daily turnover	73,184	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1445-55	1470-75
Previous	1445-50	1469-71
High/low		1477/1470
AM Official	1448-52	1473-5
Kerb close		1472-5
Open int.	5,220	
Total daily turnover	1,216	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	608.5-7.5	620-1
Previous	609-10	622-23
High/low	611	625/621
AM Official	611-2	623-4
Kerb close		623-4
Open int.	34,214	
Total daily turnover	5,505	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7110-20	7220-30
Previous	7070-80	7180-90
High/low		7280/7180
AM Official	7135-40	7245-50
Kerb close		7225-30
Open int.	52,727	
Total daily turnover	14,130	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5510-30	5560-65
Previous	5510-20	5560-65
High/low		5580/5560
AM Official	5526-7	5575-80
Kerb close		5575-80
Open int.	14,883	
Total daily turnover	3,981	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1345.5-6.5	1368-9
Previous	1346-47	1366-69
High/low		1375/1368
AM Official	1347-8	1369-9.5
Kerb close		1375-6
Open int.	92,217	
Total daily turnover	22,302	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2702-3	2597-8
Previous	2689-71	2581-82
High/low	2704/2693	2606/2580
AM Official	2692.5-3.5	2596-7
Kerb close		2591-2
Open int.	142,427	
Total daily turnover	51,136	

■ LME AM Official £/$ rate: 1.6390

LME Closing £/$ rate: 1.6425

Spot 1.6382 3 mths 1.6347 6 mths 1.6311 9 mths 1.6276

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	121.55	+0.45	122.00	121.50	488	1,400
Jul	121.85	+0.75	123.10	120.35	8,623	27,845
Aug	120.60	+0.80	120.80	120.10	155	2,880
Sep	119.65	+0.25	120.50	118.50	939	12,437
Oct	117.65	+0.15	117.20	117.20	834	1,210
Nov	115.05	+0.05	-	-	1	1,158
Total					18,713	59,666

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	340.60-341.10		
Opening	341.60-341.90		
Morning fix	342.05	208.949	493.647
Afternoon fix	341.60	208.382	492.758
Day's High	342.55-342.85		
Day's Low	340.40-340.70		
Previous close	341.90-342.40		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.45	6 months	4.40
2 months	4.45	12 months	4.40
3 months	4.41		

Silver Fix	p/troy oz.	US cts equiv.
Spot	292.70	479.75
3 months	296.65	485.50
6 months	301.15	491.35
1 year	308.80	503.25

Gold Coins	$ price	£ equiv.
Krugerrand	344-346	209-211
Maple Leaf	-	-
New Sovereign	80-83	48-50

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	338.1	-2.7	341.5	338.5	30	340
Aug	341.0	-2.7	344.4	340.8	10,347	76,467
Oct	343.5	-2.7	346.8	344.8	116	7,973
Dec	346.1	-2.7	349.6	345.7	285	26,303
Feb	348.6	-2.8	349.0	349.0	217	8,419
Apr	351.0	-2.8	-	-	367	4,353
Total					11,280	184,407

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	405.9	-4.2	411.0	403.0	1,767	9,615
Oct	395.5	-2.2	398.5	392.0	936	7,061
Jan	393.9	-0.2	393.0	393.0	12	1,623
Apr	393.9	-0.2	393.0	393.0	52	127
Total					2,719	18,426

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	189.45	-8.45	200.00	185.00	25	137
Sep	169.45	-8.45	177.00	168.10	492	5,917
Dec	165.95	-7.65	171.00	169.60	65	602
Mar	165.35	-7.95	-	-	-	95
Total					482	6,761

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	468.7	-8.7	-	-	21	2
Jul	469.5	-8.7	478.5	467.5	22,615	43,102
Sep	474.2	-8.7	483.0	472.0	3,686	20,093
Dec	481.1	-8.7	489.0	480.0	309	8,390
Jan	483.1	-8.7	-	-	-	17
Mar	487.9	-8.7	491.0	488.5	129	8,864
Total					26,854	90,855

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	18.73	-0.50	19.17	18.66	32,952	41,144
Aug	18.83	-0.42	19.30	18.69	31,233	88,899
Sep	19.07	-0.36	19.40	19.05	12,891	38,381
Oct	19.25	-0.28	19.45	19.17	2,204	25,560
Nov	19.33	-0.25	19.52	19.26	994	17,123
Dec	19.42	-0.20	19.56	19.31	3,168	38,975
Total					97,767	402,271

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	17.71	-0.37	17.96	17.71	28,812	77,347
Sep	17.90	-0.31	18.14	17.90	7,497	25,127
Oct	18.16	-0.24	18.25	18.10	811	12,454
Nov	18.27	-0.17	18.34	18.24	712	8,377
Dec	18.33	-0.17	18.45	18.32	2,009	11,395
Jan	18.33	-0.17	18.43	18.32	1,010	6,969
Total						n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.40	-1.00	52.25	51.15	10,998	29,143
Aug	51.90	-0.96	52.65	51.60	4,341	29,294
Sep	52.70	-1.04	53.75	52.60	1,517	14,749
Oct	53.70	-0.94	54.30	53.65	733	12,978
Nov	54.70	-0.76	55.35	54.55	314	11,256
Dec	55.50	-0.76	56.00	55.40	1,742	16,396
Total					21,475	144,095

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	158.75	-5.00	162.25	158.50	8,538	18,938
Aug	160.50	-5.00	164.25	160.25	6,178	11,081
Sep	163.25	-4.25	165.75	163.25	1,525	5,821
Oct	166.00	-4.00	168.50	166.00	620	6,533
Nov	168.00	-3.75	170.50	168.50	735	3,319
Dec	169.75	-3.50	172.00	170.00	1,308	9,108
Total					18,844	84,197

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.180	+0.021	2.190	2.151	12,581	27,003
Aug	2.185	+0.016	2.195	2.170	5,010	28,926
Sep	2.175	+0.016	2.185	2.165	1,800	18,895
Oct	2.165	+0.015	2.190	2.175	882	20,154
Nov	2.317	+0.014	2.317	2.300	212	9,235
Dec	2.435	+0.015	2.455	2.440	540	12,953
Total					23,844	198,827

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	58.85	-1.53	58.00	58.45	10,992	28,358
Aug	56.25	-1.59	57.50	56.15	5,190	28,098
Sep	55.75	-1.34	56.95	55.70	1,335	8,520
Oct	54.80	-0.95	55.45	54.70	1,272	4,419
Nov	54.15	-0.96	54.75	54.20	138	2,157
Dec	54.10	-0.89	54.40	53.80	210	4,824
Total					19,673	78,531

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	79.60	+0.10	79.60	78.50	127	724
Sep	85.40	-0.10	-	-	-	176
Nov	88.40	-0.10	88.75	88.40	92	3,802
Jan	90.40	-0.10	90.50	90.50	16	1,799
Mar	92.40	-0.10	92.45	92.45	4	923
May	94.40	-0.10	-	-	11	483
Total					239	7,910

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	339.75	-5	344.50	338.50	8,424	32,539
Sep	345.25	-7	354.00	345.00	2,790	25,097
Dec	358.50	-5.5	365.00	358.00	2,691	20,364
Mar	364.00	-4	368.50	363.00	175	2,675
May	357.25	-3.25	360.50	357.25	17	127
Jul	348.00	-2.50	349.50	348.00	124	938
Total					14,208	81,774

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	266.50	-5.75	271.25	266.25	29,319	84,349
Sep	249.25	-3.25	254.00	248.00	11,385	42,632
Dec	245.25	-3.5	249.50	246.00	28,298	120,790
Mar	252.25	-3.25	255.50	252.00	1,314	15,207
May	256.75	-3.25	260.00	256.75	197	2,097
Jul	260.25	-3	263.00	260.25	166	3,670
Total					70,993	272,686

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	81.25	-	-	-	-	34
Nov	84.25	-	-	-	-	1,144
Jan	86.25	-	86.50	86.50	10	164
Mar	88.25	-	-	-	-	14
May	89.75	-	-	-	-	4
Total					10	1,360

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	832.50	-20.50	859.00	831.00	26,789	54,130
Aug	772.25	-11.75	786.50	770.75	8,620	28,551
Sep	696.50	-8.00	708.00	698.00	1,613	10,086
Nov	668.50	-6.25	680.00	666.50	12,463	55,072
Jan	669.75	-5.75	675.00	669.50	667	8,141
Mar	674.25	-4.50	678.50	673.00	246	2,041
Total					60,386	180,477

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	23.07	-5.17	23.37	22.95	4,038	36,186
Aug	23.24	-0.2	23.54	23.17	2,607	20,878
Sep	23.42	-0.21	23.68	23.35	480	9,505
Oct	23.42	-0.3	23.70	23.37	364	12,012
Dec	23.64	-0.35	24.05	23.58	2,510	21,115
Jan	23.80	-0.33	23.95	23.80	44	1,613
Total					10,248	103,884

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	271.7	-7	280.0	271.3	8,568	33,596
Aug	249.6	-4.9	256.0	248.1	5,014	19,424
Sep	231.9	-4	235.0	231.0	1,834	12,882
Oct	220.8	-3.2	223.5	220.0	1,276	13,171
Dec	214.1	-2.8	216.7	213.5	3,986	26,120
Jan	211.0	-3	214.0	211.0	45	2,729
Total					21,136	112,606

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	35.0	-3.0	-	-	-	0
Mar	68.0	-3.0	-	-	-	-
Apr	71.0	-5.1	75.0	71.9	48	727
May	92.9	-5.1	-	-	-	-
Jun	98.9	-5.1	-	-	-	-
Total					48	736

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1290	+10	1290	1290	3	411
Jul	1200	-	1215	1200	56	1,264
Aug	1195	-	1205	1194	34	465
Oct	1355	-	1365	1355	115	642
Jan	1390	+5	1390	1390	5	72
Total					213	2,854

	Close	Prev
BFI	1282	1274

FUTURES DATA

All futures data supplied by CMS.

Nuts and seeds

Prices from Kenkko; US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round): RPPC prices at 4,400 CFR/FCA, firm with slow sales. Walnuts US jumbo inshell: 2,300 CPT Europe duty paid. Turkish hazelnuts standard No 1: nervous, price idea 4,700 CFR, new crop at 4,250 CFR. Turkish sultanas: 1,300 CFR MEP, firm with few goods. Iranian industrial apricots: 1,800 CFR MEP firm. Indian cashews: raw crop 1997 CFR Europe, W320 at 5,500, W240 at 6,000. US almonds: crop 1996 27/30 SSR at 5,850 CIF Europe; crop 1997 23/25 SSR 4,000 FAS market stable in general with little activity. Coconut: CFR 1,100 from top Philippine mills, stable after decrease. Russian pumpkin seeds: long at 1,850 FOB Italy good demand due to Chinese defaults.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1098	+7	1107	1095	942	18,853
Sep	1118	+7	1125	1112	2,671	30,050
Dec	1114	+6	1120	1110	1,252	33,602
Mar	1124	+7	1127	1120	1,436	41,479
May	1135	+7	1137	1134	83	16,674
Jul	1146	+7	1150	1145	41	5,447
Total					6,610	167,038

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1551	-33	1577	1550	731	611
Sep	1601	-24	1623	1598	8,707	38,042
Dec	1639	-22	1660	1637	2,981	19,823
Mar	1668	-24	1690	1667	950	23,407
May	1688	-24	1698	1698	-	3,757
Jul	1708	-24	1719	1714	36	811
Total					13,963	96,672

■ COCOA (ICCO) (SDR's/tonne)

Jun 17	Price	Prev. day
Daily	1243.41	1253.14

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1850	-50	1958	1840	2,269	10,417
Sep	1865	-45	1975	1850	4,154	23,550
Nov	1848	-52	1960	1895	1,338	10,123
Jan	1815	-65	1930	1879	320	3,122
Mar	1805	-65	1910	1910	-	562
May	1805	-65	1855	1794	-	32
Total					8,103	47,808

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	190.05	-18.65	213.50	189.00	2,005	3,854
Sep	175.55	-15.15	193.50	175.00	5,233	8,991
Dec	156.55	-12.15	170.00	162.70	647	4,665
Mar	147.55	-10.15	159.00	151.70	245	2,513
May	144.05	-8.65	158.00	147.70	28	607
Jul	140.05	-8.65	143.70	143.70	-	153
Total					8,158	21,923

■ COFFEE (ICO) (US cents/pound)

Jun 17		Prev. day
Comp. daily	153.45	148.26
15 day average	173.56	176.33

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	323.0	-0.2	323.9	322.0	811	14,852
Oct	317.5	+0.2	318.4	316.2	422	8,002
Dec	315.7	+0.7	315.5	314.5	88	3,209
Mar	315.4	+0.8	316.0	314.1	127	3,207
May	315.0	+0.8	-	-	-	892
Aug	313.2	+1.1	311.8	311.0	39	854
Total					1,368	31,598

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.36	+0.02	11.41	11.29	12,776	53,178
Oct	11.31	+0.00	11.35	11.22	9,316	82,405
Mar	11.22	+0.02	11.24	11.15	4,370	33,793
May	11.11	+0.02	11.12	11.08	114	7,279
Jul	11.01	+0.02	11.02	11.01	83	3,631
Oct	10.91	+0.02	10.88	10.88	21	1,017
Total					26,684	181,866

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.53	-0.13	72.75	72.40	4,378	17,793
Oct	74.77	-0.03	75.00	74.65	1,197	8,677
Dec	75.40	-5.14	75.64	75.25	5,739	34,109
Mar	76.55	-5.15	76.85	76.60	199	5,822
May	77.12	-0.06	77.30	77.10	21	1,180
Jul	77.35	+0.07	77.40	77.40	18	622
Total					11,818	78,819

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	75.80	-0.10	76.50	75.40	1,574	15,741
Sep	78.60	-0.25	79.10	78.18	1,093	11,664
Nov	81.30	+0.05	81.75	80.75	162	4,776
Jan	83.80	+0.05	84.50	83.40	112	1,882
Mar	86.55	+0.30	87.00	86.50	17	1,329
May	89.05	+0.30	-	-	-	314
Total					2,958	35,736

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 18	Jun 17	month ago	year ago
2015.7	1993.2	2013.5	2044.9

■ CRB Futures (Base: 1967 = 100)

Jun 17	Jun 16	month ago	year ago
244.89	244.64		

■ GSCI Spot (Base: 1970 = 100)

Jun 17	Jun 16	month ago	year ago
186.39	185.10	201.86	202.62

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,100	to	695,550
Aluminium alloy	-60	to	60,440
Copper	+300	to	122,525
Lead	-50	to	116,825
Nickel	-306	to	51,414
Zinc	-725	to	425,100
Tin	-250	to	11,555

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	65.100	-0.425	65.400	65.025	3,584	4,333
Aug	64.075	-0.625	64.650	64.050	12,060	43,025
Oct	66.975	-0.375	67.300	66.900	2,902	23,578
Dec	69.750	-0.500	70.225	69.675	1,209	12,342
Feb	70.700	-0.375	71.100	70.650	340	6,201
Apr	72.800	-0.300	73.050	72.675	308	2,634
Total					20,443	92,876

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	82.250	+0.325	82.300	81.125	3,667	9,614
Aug	79.450	+0.450	79.650	78.300	2,797	11,135
Oct	71.425	-0.225	71.700	70.675	771	6,792
Dec	68.275	+0.225	68.400	67.400	951	4,191
Feb	66.625	+0.075	66.750	66.750	72	1,722
Apr	62.500	-0.150	62.850	62.400	44	978
Total					10,261	35,202

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	81.650	+0.125	82.400	78.525	1,558	3,378
Aug	81.700	-0.025	82.400	78.725	888	2,595
Feb	72.900	-0.600	73.550	71.000	64	506
Mar	71.100	-0.900	72.450	71.900	0	17
Total					2,490	6,503

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

	Jul	Oct	Jul	Oct
1575	21	56	20	38
1600	11	44	34	51
1700	5	33	53	65

■ COPPER (Grade A) LME

	Jul	Oct	Jul	Oct
2600	106	71	14	127
2650	70	54	29	159
2750	43	40	51	195

■ COFFEE LIFFE

	Jul	Sep	Jul	Sep
n/a				
n/a				
n/a				

■ COCOA LIFFE

	Jul	Sep	Jul	Sep
n/a				
n/a				
n/a				

■ BRENT CRUDE IPE

	Jul	Aug	Jul	Aug
1750	-	-	48	-
1800	50	84	84	-
1850	33	59	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.73-6.84	-0.335
Brent Blend (dated)	$17.14-7.20	-0.29
Brent Blend (Aug)	$17.74-7.80	-0.29
W.T.I.	$18.98-9.00z	-0.33

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$195-197	-3
Gas Oil	$159-160	-3
Heavy Fuel Oil	$80-82	
Naphtha	$181-183	-2
Jet fuel	$175-177	-3
Diesel	$164-165	-3

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	9.85-9.95

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jul)	9.820

■ OTHER

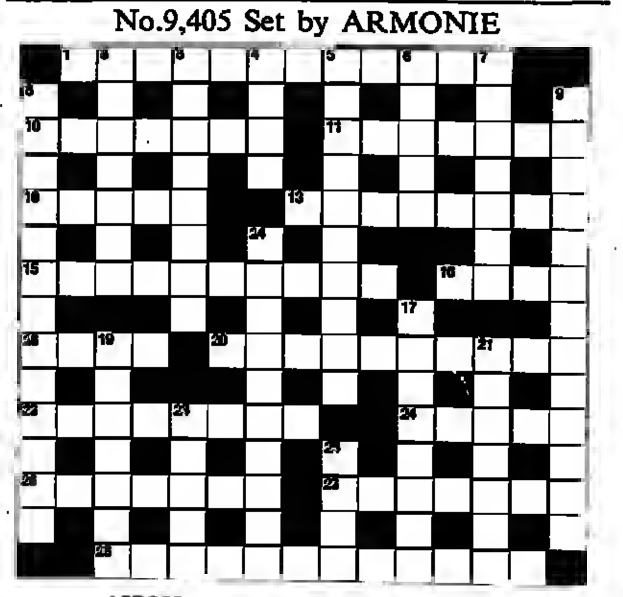
Gold (per troy oz)♣	$340.85	-1.30
Silver (per troy oz)♣	474.00c	-6.00
Platinum (per troy oz.)	$409.00	-6.00
Palladium (per troy oz.)	$190.00	-6.00
Copper	127.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.08r	
Tin (New York)	260.5	
Cattle (live weight)	92.45p	+1.05*
Sheep (live weight)	119.22p	+8.32*
Pigs (live weight)†	95.83p	-3.09*
Lon. day sugar (raw)	$278.30	-1.10
Lon. day sugar (wte)	$328.20	-0.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	71.00p	-0.25
Rubber (Aug)♥	71.00p	-0.25
Rubber (KL RSS No1)	281.5x	-2.00
Coconut Oil (Phil)§	660.0y	+5.0
Palm Oil (Malay.)§	530.0w	+5.0
Copra (Phil)§	$415.0y	
Soyabeans (US)	212.0	+2
Cotton Outlook'A' index	81.05c	
Wooltops (64s Super)	439p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Aug. w Jul. London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,331 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,405 Set by ARMONIE



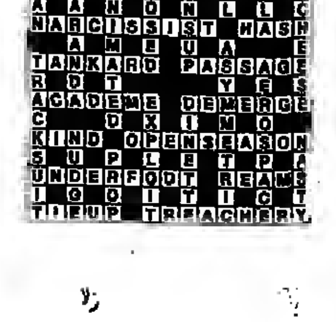
ACROSS

1 The winger is not in the team! OK? (7,5)
10 Fail to detain one caught giving sweetener (7)
11 Trainee prepared the course (7)
12 Bungling writer retired in Italy (5)
13 Vagrant let cider froth (8)
15 The way a gullible person may be brought up? (6,4)
16 Stern parent (4)
18 Expel judge from a tournament (4)
20 Hold good person in favour before sour person (6,4)
22 Accomplished players being threatening (8)
24 Small, delicate, charming, and to some extent self-indulgent (5)
26 A good daughter tucked into cake – a suitable gift for a child (3,4)
27 It's fashionable having a function in US city (7)
28 Delight shown about confident Barbarian in game (8,4)

DOWN

2 Dubious relative gets support from a king (7)
3 See other arrangement made for stretcher in Oxford, say (8)
4 Fast food (4)
5 American property makes soldier and porter panic (4,6)
6 They say the girl's a benevolent spirit (5)
7 Make a mistake breaking part of fork in the dish (7)
8 Blushes after brief and conspicuous success (6,7)
9 Flier's working under ex-PM. That's absurdly complicated (5-8)
14 Spa smelt so awful medicinal preparation's made from it (5,5)
17 Diminutive royal, formerly called drunk (4-4)
19 European involved in minor trickery (7)
21 Quit the chorus (7)
23 Rent is about zero (5)
25 Damage award after losing one's head (4)

Solution 9,404



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Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

Rothschild Asset Management - Contd.

UTI (Guernsey) Limited

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IRELAND (SIB RECOGNISED)

Hambros Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co

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Asia Dynamic Growth Fund Plc

Asia Small Cos Growth Fund (a)

Asian Diversified Equity Fund Plc

Asian Emerging Markets Fund Plc

Asian Gateway Fund Plc

Asian Growth Fund Plc

HSBC UK Equity Plus III Plc

HSBC UK Equity Plus IV Plc

HSBC UK Equity Plus V Plc

Hanson Ireland Ltd

Hansol Korea Venture Fund

Berkshire KITC Growth Fund Plc

Berkshire Korea Fund Plc

Blackstone Franks Managers Ireland Ltd

Bordier Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

Scottish Value Management (Ireland) Ltd (u)

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Calpius Fund

Capital Vision Fund Plc

Chemical Ireland Fund Administration Ltd

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Value Express Fund Plc

Yamaichi Samsung Dynamic Korea Fund

Yield Korea Fund

Yield Taiwan Fund

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JERSEY (REGULATED)(**)

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	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's

American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 404646211

Foreign & Colonial Portfolios Fd Sicav(u)

33 Boulevard Prince Henri, L-1724 Lux 00 352 2265 211

Nikko Global Umbrella Fund

Aetna International Umbrella Fund

Alliance Capital

Nomura Global Fund (u)

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Notes | Price | + or - | 52 week high | low | Mkt Cap £m | Yld Gr's | P/E

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

Notes | Price | + or - | 52 week high | low | Yld Gr's | NAV | Dis or Pm(-)

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR Headline Earnings formats.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☆ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ● Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimate.
c Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
g Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield includes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
R Dividend is paid in whole or part as a

FD (Foreign Income Dividend)
N Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield at date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xi ex capital distribution.

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LONDON STOCK EXCHANGE

Retail sales news hits already weak equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Already seriously weakened by the prospect of some hard hitting proposals in the July 2 budget, UK equities were given an additional hammering yesterday by news that domestic retail sales during May increased by a much bigger than expected 1.1 per cent.

That news, dealers and analysts said, substantially increased the possibility that the newly-constituted Monetary Policy Committee will increase domestic interest rates after their next meeting, scheduled for July 10.

In the background there was a story doing the rounds that one of the big UK financial institutions had suffered losses of up to £200m from its activities in derivatives. London also had to cope with bad news from the US, where share prices on Wall Street fell heavily in the wake of profit warnings from high-tech stocks.

The Dow Jones Industrial Average, which has been hitting record highs over recent weeks, gave up over 50 points shortly after trading commenced in New York yesterday.

There was, however, some comfort for investors as a burst of buying towards the close of trading took the FTSE 100 index well off the session low. The market's second liners and the smallcap stocks remained almost totally friendless, however.

At the finish of a day featured by relatively low volumes – again affected by low attendances around trading desks due to Royal Ascot – Footsie ended 25.2 down at 4,657.0. At its worst, Footsie fell 54.9 and looked likely to threaten the 4,600 level. That fall extended Footsie's decline over the week to 126.1, or 2.7 per cent.

The FTSE 250, meanwhile, slipped 21.8 to 4,516.2, increasing the fall in that index to 69.9, or 1.5 per cent over three days. The smallcap fell 9.3 to to 2,370.3.

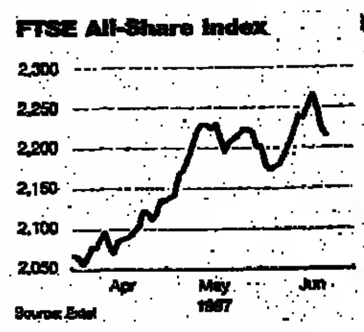
Dealers said the market had coped well enough with the selling pressures provoked by the report that the new government intends to abolish the 20 per cent tax credit on dividends, but had been panicked by the retail sales report which instantly aroused fears of a rate rise next month.

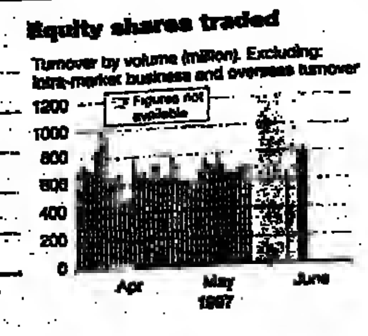
"If there had been any doubts that rates were going up after the July 2 budget, that retail sales report would bave dispelled them," said a senior marketmaker at one of the big UK securities houses. "We could be in for a rough ride up to the budget and beyond," be added.

Mr Richard Jeffrey, group strategist at Charterhouse Tilney, said: "The threat of substantial interest rate increases is becoming much clearer. I continue to believe that UK interest rates will be around 8 per cent by the end of the year."

NatWest Securities warned: "Our optimistic forecasts for UK equities were based on a view that New Labour would stick to a tough fiscal and monetary policy. We were less certain about the supply side policies of the new Government. Unfortunately these misgivings are growing as there are signs that much Old Labour dogma about the corporate sector persists."

Turnover in equities at 6pm was 840.8m shares.





Indices and ratios

FTSE 100	4657.0	-25.2	FT 30	3014.00	-10.4
FTSE 250	4516.2	-21.6	FTSE Non-Fins p/e	18.93	19.03
FTSE 350	2256.7	-12.0	FTSE 100 Fut Jun	4652.0	-24.0
FTSE All-Share	2213.78	-11.54	10 yr Gilt yield	7.16	7.06
FTSE All-Share yield	3.52	3.50	Long gilt/equity yld ratio	2.04	2.05

Best performing sectors

1 Gas Distribution ....+1.9
2 Diversified Inds ....+1.4
3 Alcholic Beverages ....+0.4
4 Textiles & Apparel ....+0.3
5 Chemicals ....+0.2

Worst performing sectors

1 Media ....-2.1
2 Extractive Inds ....-1.8
3 Electronic & Elec ....-1.8
4 Tobacco ....-1.2
5 Leisure & Hotels ....-1.1

BG bulls buck bad news

By Peter John and Martin Brice

The Monopolies and Mergers Commission finally produced its long-awaited review on BG's pipeline fees.

Ofgas, the regulator, got everything it had asked for the first time round, bar a couple of concessions at the margin.

BG said its profits would be hit by 5 per cent in the current financial year and 7 per cent in 1998-99, yet the shares shot up by 6 per cent, making them one of Footsie's best performers.

Simplistically, there was a collective sigh of relief that the dogfight was over. BG commented with a certain amount of dignity: "The MMC Report has provided the opportunity to end a prolonged period of regulatory instability and uncertainty."

And fundamentally, there was good news over the dividend. it will still be slasbed from its previous level of 14.5p.

But analysts said that the reduction in free cashflow had been halved from £400m to £200m and consequently, the next dividend is more likely to be between 7.5p and 9p compared with the previous range of 5p to 7p.

NatWest, which had been at the top of the range, raised its forecast to 8p. Mr Richard Alderman, at the broker, said the consensus share price target was now around 230p with more optimistic estimates looking for 245p in the medium term.

ABN Amro Hoare Govett, BG's broker, also boosted its estimate and moved to "undervalued" from "neutral" while SGST put the stock on "hold". The broker had been negative.

BG shares gained 6¾ to 219p on turnover of 28m. The demerged Centrica business eased 1¼ to 67p with turnover also reaching 28m shares.

BSkyB tumbled 45 to 521¼p, the biggest decline among Footsie stocks. An announcement that Mr David Chance, the deputy managing director, was leaving came hard on the beels of news that Mr Sam Chisholm was also standing down.

"To lose one senior executive is unfortunate but to lose two could be seen as carelessness," quipped one analyst. And there was speculation that incompatibility and unhappiness might have been behind the second departure.

Also, there was a press report that the Independent Television Commission had decided BSkyB should drop its equity stake in British Digital Broadcasting. Of the other two partners in the BDB consortium, Carlton rose 9½ to 519½p while Granada slid 9 to 852p.

After two days of heavy selling, National Westminster had a reprieve with some assistance from Credit Lyonnais Laing.

The broker published a buy note that argued that if the bank sorts out the thorn in its side – NatWest Markets – the shares will be fair value at around £10. The shares bounced only 4¼ to 750p but stood out in a very dull sector.

Abbey National, which has been mooted as an ideal merger partner for NatWest, slipped 2 to 829p and HSBC, also considered to be waiting in the wings, shed 14 to £18.31¼. There is an argument that HSBC's James Capel investment banking arm needs almost as much of a boost as NatWest, while HSBC's Midland arm could benefit in ranking and synergy from a a merger with NatWest's retail banking side.

British Steel eased to 158½p in brisk volume of 14m as keen investor interest continued after its fall earlier this week, which was prompted by poor results. Sentiment in the stock was helped by a note yesterday from Goldman Sachs that reiterated the broker's "market outperformer" stance.

The broker's note adds: "Moreover, the company has a strong balance sheet, which should help it maintain its 6.4 per cent dividend yield." Traders have been saying that US investors saw the recent price drop as a buying opportunity: the company has paid up the strength of sterling and overseas investors have been buying the stock as a bet on a weaker pound.

Shares in FKI eased off recent highs prompted by results at the top end of expectations as the shares fell 3¾ to 181p.

They have seen good trade recently helped by a set of upgrades: a "buy" note from UBS is set to arrive on investors' desks today.

The broker said the shares, which are trading on a price-earnings relative of abont 76 to the market, deserve a relative of about 90, which suggests there could be an upside of about 25 per cent. UBS said: "The low rating reflects FKI's past, not its future, and we are buyers up to a p/e relative of 90."

Rolls-Royce rose 2¾ to 256½p in brisk trade, helped by the latest in a series of announcements stemming from the Paris air show, in which the company said it had won an order for its Tay engine worth $700m. The company said the order secures the future for the Tay engine and traders believe it will help sentiment in the stock.

MFI saw brisk trade and eased a penny to 141p, off recent highs prompted by good figures from Carpetright, itself down 13 to 465½p.

BICC was up 3 to 182½p, helped by a buy note said to be from ABN Amro Hoare Govett.

Investor interest in WS Atkins kept the stock on its roller-coaster ride, and the shares rose 5 to 275½p. They have seen a lot of attention in the past week, with movements including a 17p fall and a 22p rise although volumes have not been notable.

Traders put the movements down to marketmakers taking positions ahead of the company's results, due out next Thursday. The company is thought to have looked at a few potential acquisitions in the facilities management area that have so far come to nothing. The shares, which floated at 215p a year ago, had a strong run up to 384p in January before running into profit-taking.

Mr Graeme Summers at Wise Speke expects profits of £22m, before a £4m pension credit, to give earnings per share of 16.1p for the year to March. His figures put the shares on a prospective p/e of 15 times for next year.

Psion eased 1½ to 404p following its profits warning this week, as Goldman Sachs yesterday cut its profit forecast by 30 per cent and its stance on the stock from "buy" to "outperformer".

Bank note printer De La Rue bounced 17 to 376½p. The shares fell sharply earlier in the month after the group failed to dispel doubts about prospects for growth.

Lasmo was squeezed higher as some active buying caught the market short of stock. The stock was up 8 at 369p with some talk that NatWest Securities was hosting a series of meetings.

FT 30 INDEX

	Jun 19	Jun 17	Jun 18	Jun 13	Jun 12	Yr ago	*High	*Low
FT 30	3014.0	3024.4	3054.3	3077.4	3062.5	2768.9	3077.4	2668.8
Ord. div. yield	3.65	3.63	3.60	3.56	3.58	4.03	4.22	3.56
P/E ratio net	18.19	18.27	18.44	18.64	18.54	16.38	18.64	15.80
P/E ratio nil	18.01	18.08	18.25	18.45	18.35	16.24	18.45	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3031.0	3010.2	3003.9	3010.3	3010.5	3013.2	3007.2	3009.6	3012.5	3032.6	3001.2

	Jun 18	Jun 17	Jun 18	Jun 13	Jun 12	Yr ago
SEAQ bargains	45,854	52,519	62,314	51,900	48,674	30,612
Equity turnover (£m)†	–	NA	3264.9	3044.1	3413.0	1667.8
Equity bargains†	–	NA	53,805	46,132	44,441	35,507
Shares traded (ml)†	–	NA	899.9	787.9	835.4	739.4

†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	360	Total Highs	89	Total contracts	86,330
Total Falls	1,231	Total Lows	107	Calls	47,719
Same	1,481			Puts	38,611

Jun 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jun	4680.0	4652.0	-29.0	4682.0	4616.0	35285	39338
Sep	4721.0	4686.0	-32.5	4721.0	4652.0	19811	47678
Dec	4727.0	4741.0	-31.0	4746.0	4727.0	31	2238

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jun	4518.0	4518.0	-36.0	4518.0	4518.0	5	3463
Sep	4573.0	4575.0	-29.0	4573.0	4573.0	5	5219

■ FTSE 100 INDEX OPTION (LIFFE) (*4652) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Pending price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
155	Nil	9/7	15½pm	4½pm	Century Inns	4½pm	-2
205	Nil	20/6	19pm	15pm	Pillar Props	15pm	-2

pm premium.

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 18 / Sch)

BELGIUM/LUXEMBOURG (Jun 18 / Frs.)

CZECH REP (Jun 18 / Koruna)

DENMARK (Jun 18 / Kr)

FINLAND (Jun 18 / Mks)

FRANCE (Jun 18 / Frs.)

GERMANY (Jun 18 / Dm.)

GREECE (Jun 18 / Drachma)

ITALY (Jun 18 / Lire)

NETHERLANDS (Jun 18 / Fls.)

NORWAY (Jun 18 / Kroner)

POLAND (Jun 18 / Zloty)

PORTUGAL (Jun 18 / Escudo)

SPAIN (Jun 18 / Pta.)

SWEDEN (Jun 18 / Kronor)

SWITZERLAND (Jun 18 / Frs.)

TURKEY (Jun 18 / Tk Lira)

PACIFIC

JAPAN (Jun 18 / Yen)

AUSTRALIA (Jun 18 / Aus$)

HONG KONG (Jun 18 / H.K.$)

INDONESIA (Jun 18 / Rupiah)

MALAYSIA (Jun 18 / MYR)

NEW ZEALAND (Jun 18 / NZ $)

SINGAPORE (Jun 18 / S$)

SOUTH KOREA (Jun 18 / Won)

TAIWAN (Jun 18 / TW $)

THAILAND (Jun 18 / Baht)

AFRICA

SOUTH AFRICA (Jun 18 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 18 / Can $)
4 pm close

MONTREAL (Jun 18 / Can $)
4 pm close

Prices supplied by Extel, part of FT Information.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in 00 $.

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INDICES

	Jun 16	Jun 17	Jun 18	1997 High	1997 Low
Argentina					
General(29/12/77)	(c)	22835.54	(c)	23682.80 12/6	18237.37 2/1
Australia					
All Ordinaries(1/1/80)	2673.4	2681.7	2669.3	2681.70 17/6	2362.20 1/4
All Mining(1/1/80)	946.3	950.3	940.7	987.10 24/2	878.40 15/4
Austria					
Credit Aktien(30/12/84)	409.62	410.49	410.05	431.07 5/6	374.49 9/1
Traded Index(2/1/91)	1297.47	1303.39	1307.97	1310.70 27/5	1130.22 9/1
Belgium					
BEL20(1/1/91)	2347.55	2360.03	2387.40	2490.36 13/6	1971.05 2/1
Brazil					
Bovespa(29/12/83)	(c)	12110.8	11854.0	12119.00 17/6	8865.59 2/1
Canada					
Metals Minls♦(1975)	(u)	5481.08	5516.00	5981.70 10/3	4945.98 11/4
Composite♦(1975)	(u)	6532.30	6537.50	6558.69 13/6	5879.30 14/4
Portfolio§§(4/1/83)	(u)	3313.61	3325.41	3339.99 13/6	2946.02 11/4
Chile					
IGPA Gen▼(31/12/80)	(u)	5760.05	5798.45	5943.79 13/6	4912.42 2/1
Denmark					
CopenhagenSE(3/1/83)	586.60	589.34	589.39	600.39 16/6	470.14 2/1
Finland					
HEX General(28/12/90)	2113.27	3111.43†	3137.48	3143.61 13/6	2483.28 2/1
France					
SBF 250(31/12/90)	1808.17	1811.76	1829.72	1838.29 16/5	1533.18 2/1
CAC 40(31/12/87)	2751.71	2762.60	2785.87	2808.82 13/6	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1271.10	1277.38	1284.03	1284.03 18/6	995.21 2/1
Commerzbank(1/12/53)	3733.30	3752.18	3773.90	3773.90 18/6	2878.90 2/1
DAX‡(30/12/87)	3730.27	3741.48	3765.11	3768.11 16/6	2848.77 2/1
Greece					
Athens SE(31/12/80)	1541.46	1577.85	(c)	1727.78 23/5	954.54 2/1
Hong Kong					
Hang Seng(31/7/64)	14203.89	14307.15	14394.60	14690.90 2/6	12055.17 3/4
India					
BSE Sens.(1979)	4082.50	4087.64	4025.41	4087.64 17/6	3226.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	710.78	705.08	705.28	712.80 26/2	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3332.35	3351.62†	3357.27	3358.48 13/6	2725.07 2/1
Italy					
Banca Comm Ital(1972)	797.16	796.57	800.85	800.86 16/6	642.85 2/1
MIB General(2/1/97)	1199.0	1198.0	1205.0	1205.00 18/6	991.00 2/1
Japan					
Nikkei 225(16/5/49)	20497.85	20583.66	20681.07	20681.07 18/6	17303.65 10/1
Nikkei 300(1/10/82)	296.09	297.13	298.50	298.50 18/6	251.04 27/1
Topix(4/1/68)	1531.71	1537.38	1542.19	1542.19 18/6	1320.82 10/4
2nd Section(4/1/68)	1840.92	1833.52†	1828.22	1840.92 16/6	1516.50 15/4
Malaysia					
KLSE Comp.(4/4/86)	1068.12	1076.93	1077.40	1271.57 25/2	1041.27 15/5
Mexico					
IPC(Nov 1978)	(c)	4278.83	4237.31	4278.83 17/6	3359.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	997.8	998.3	1003.0	1003.00 18/6	730.80 2/1
CBS All Shr(End 83)	576.6	576.8	578.5	579.50 18/6	428.09 2/1
New Zealand					
Cap. 40(1/7/86)	2400.21	2368.03	2370.82	2440.21 20/1	2287.90 1/4
Norway					
Oslo SE(Ind)(2/1/83)	1959.97	1973.05	1973.15	1980.69 9/6	1609.03 2/1
Philippines					
Manila Comp(2/1/85)	2823.35	2798.25	2790.86	3447.60 3/2	2499.38 20/5
Portugal					
BVL 30(4/1/93)	3154.64	3166.07	3170.84	3170.84 18/6	2185.57 2/1
Singapore					
SES All-S'pore(2/4/75)	489.04	492.06	488.85	573.03 17/2	479.84 29/4
South Africa					
JSE Gold(28/9/78)	1056.7▼	1100.5	(c)	1598.10 27/2	1008.70 18/6
JSE Ind.(28/9/78)	8432.1▼	8432.7	(c)	8598.79 8/5	7659.50 2/1
South Korea					
KoreaCompEx**(4/1/80)	773.21	782.29	789.06	792.29 17/6	211.05 7/1
Spain					
Madrid SE(30/12/85)	577.00	571.84	578.38	582.29 13/6	434.54 2/1
Sweden					
AffarsvardsGen(1/2/37)	(u)	2941.4	2954.0	2954.00 18/6	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5405.0	5345.9	5362.0	5406.00 16/6	3822.80 7/1
SPI General(1/6/87)	3430.09	3400.56	3405.8	3430.09 16/6	2896.22 6/1
Taiwan					
Weighted Pr.**(30/6/66)	8713.49	8679.24	8640.45	8713.49 16/6	6844.76 6/1
Thailand					
Bangkok SET(30/4/75)	482.94	497.72	511.55	858.97 22/1	482.94 16/6
Turkey					
IMKB Nat 100(1986)	1565.0	1551.00	1582.00	1675.00 5/6	995.00 2/1
WORLD					
MS Capital Intl(1/1/70)	936.1*	938.0	941.4	941.40 18/6	794.59 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2427.88	2449.49	2451.85	2481.85 18/6	1963.80 2/1
FTSE E 100(26/6/90)	2063.77	2063.28	2085.08	2092.85 13/6	1582.99 2/1
HSBC JC Drgn(31/12/88)	(u)	409.77	410.84	428.46 20/1	381.64 28/4
ING Brngs Emrg(7/1/92)	(u)	186.04	186.33	188.33 18/6	139.74 3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Jun	2745.0	2748.0	-3.0	2750.0	2717.0	15,194	33,654
Jul	2745.0	2746.0	-3.0	2748.0	2717.5	1,755	7,810
DAX							
Jun	3715.0	3726.5	+7.5	3736.0	3707.0	48,594	114,524
Sep	3744.0	3754.5	+13.0	3764.5	3736.0	32,122	49,987
OMX							
Jun	2327.00	2310.00	-14.00	2328.00	2305.00	3,658	20,753
Jul	2334.75	2317.50	-16.75	2334.75	2312.00	944	7,588
SOFFEX							
Jun	5357.2	5389.9	+51.9	5396.0	5332.0	8,348	17,970
Jul	5360.0	5392.0	+50.0	5387.0	5333.0	4,245	6,696

** Sat June 14: Taiwan Weighted Price 8502.18; Korea Comp Ex 781.97. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX – all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 20 Ind - 264.3; IMKB Nat 100 - 1; NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal. ♦ Toronto (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 18 - 3730.56 +8.38. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation.

US INDICES

Dow Jones	Jun 17	Jun 16	Jun 13	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7760.78	7772.09	7782.04	7782.04 (13/6)	6391.69 (11/4)	7782.04 (13/6/97)	41.22 (8/7/32)
Home Bonds	103.07	102.76	102.84	103.63 (19/2)	101.69 (14/4)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2727.56	2722.10	2741.67	2741.57 (13/6)	2222.07 (2/1)	2741.67 (13/6/97)	13.23 (8/7/32)
Utilities	225.10	224.43	224.60	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 7834.97 (7829.99) Low 7680.71 (7712.37) (Theoretical♦)
Day's high 7810.09 (7795.16) Low 7703.70 (7753.00) (Actual♦)

Standard and Poors	Jun 17	Jun 16	Jun 13	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	894.42	893.90	893.27	894.42 (17/6)	737.01 (2/1)	894.42 (17/6/97)	4.40 (1/6/32)
Industrials▼	1052.04	1051.20	1050.54	1052.04 (17/6)	855.42 (11/4)	1052.04 (17/6/97)	3.52 (30/6/32)
Financial	102.57	102.70	102.48	102.70 (16/6)	80.75 (2/1)	102.70 (16/6/97)	7.10 (4/8/74)
NYSE Comp.	465.09	465.01	465.17	465.17 (13/6)	389.47 (11/4)	465.17 (13/6/97)	4.64 (25/4/42)
Amex Comp.	625.86	628.17	630.10	630.10 (13/6)	541.20 (28/4)	630.10 (13/6/97)	524.20 (18/7/96)
NASDAQ Comp	1443.11	1431.95	1423.03	1443.11 (17/6)	1201.00 (2/4)	1443.11 (17/6/97)	54.87 (3/10/74)

RATIOS

	Jun 13	Jun 6	May 30	Year ago
Dow Jones Ind. Div. Yield	1.64	1.70	1.73	2.19
	Jun 11	Jun 4	May 28	Year ago
S & P Ind. Div. yield	1.62	1.69	1.67	1.87
S & P Ind. P/E ratio	24.13	23.32	23.66	22.50

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Reynolds	10,241,900	15¾	-¼
Bay Network	7,984,700	26¾	+1⅞
Gateway 2000	7,186,000	34¾	+1⅛
Iomega	7,152,700	22¾	+1⅞
Micron	7,148,400	41⅞	+⅛
Philip Morris	7,111,400	46⅞	+¾
Lab Amer	5,913,300	2¾	+⅛
Compaq	5,470,600	109¾	+4
W Digital	5,062,300	33¼	+2⅝
AT&T	4,910,500	37⅝	-¾

TRADING ACTIVITY

● Volume (million)	Jun 17	Jun 16	Jun 13
New York SE	542.949	414.279	572.868
Amex	21.189	16.810	22.325
NASDAQ	627.160	507.491	603.195
NYSE			
Issues Traded	3,384	3,374	3,383
Rises	1,235	1,230	1,738
Falls	1,247	1,249	812
Unchanged	902	895	835
New Highs	257	305	473
New Lows	14	8	7

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Jun	889.25	889.60	-3.80	892.10	886.60	30,754	82,416
Sep	902.65	899.20	-3.55	902.80	895.80	92,095	147,263

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Nikkei 225							
Sep	20690.0	20680.0	-20.0	20690.0	20440.0	16,298	157,041
Dec	20600.0	20460.0	-160.0	20600.0	20450.0	34	1,327

Open Interest figures for previous day.

TOKYO - MOST ACTIVE STOCKS: Wednesday, June 18, 1997

	Stocks Traded	Closing Prices	Change on day
Hokkaido Taku Bk	7.6m	163	-7
Sumitomo Bank	6.0m	1760	-20
Fujitsu	4.3m	1510	+10
NKK Corp	4.1m	237	-3
Sakura Bank	4.0m	835	-14
Nippon Steel Cp	3.9m	344	-4
Sanwa Bank	3.6m	1690	+10
Toshiba Corp	3.5m	760	-7
Ind Bk of Japan	3.5m	1580	
Dainippon Ink	3.3m	520	+21

4 pm close June 18

NEW YORK STOCK EXCHANGE PRICES

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

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- H -

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- I -

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- J -

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- K -

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- L -

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- M -

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- N -

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- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

4 pm close June 18

NYSE PRICES

Continued from previous page

23¾	17¾	Zero	0.12	0.5	10	48	u23⅞	23⅜ 23½ -¼
12⅞	10¾	ZweigFd	1.20	10.0		175	u12⅝	12 12 -⅛
9⅞	8	Zweig Tot 2	0.84	9.5		280	u9⅞	8¾ 9⅞ +⅛

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ak-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

2 Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close June 18

- K -

K Swiss	0.08348	301	13⅞	13¾	13⅞	+⅜
Kaman Cp	0.44 25	20	14⅜	14⅛	14⅜	+⅛
Kelly Sv	0.84 15	436	u29⅞	29	29⅞	+⅛
Kimball	1.18 14	24	40⅞	40½	40¾	+⅛
KLA-Tn		2518871	49¼	47⅝	49¼	-½
Kell A		544	⅝	d⅟₃₂	⅟₁₆	
Komag		1524463	25¼	d24⅜	24⅞	-1⅜
Kulicke S		7589	28½	26½	27	-⅞

Pres Life x	0.20 14	562	u17	16¾	17	+¼
Proxlink		169 1886	83½	80	83⅞	+⅛
PrideP		10 2577	22⅜	21¼	22⅛	+⅛
Printroni		19 25	14¼	13⅞	13⅞	-⅛
Prod Ops	0.28 35	z0	70½	70½	70½	
Qualcomm		57 8457	49⅝	48	48	-⅝
Qual Food		22 z0	40½	40½	40½	+½
Quantum		1889722	22⅜	21	22⅛	-⅛
Quickturn		19 602	32⅝	31¼	32⅛	-½
Quintiles		223 2393	68⅞	68½	67	

- X - Y - Z -

Xilinx		3518880	50¾	40	50⅞	+⅞
Xircom		18 3931	12⅝	12	12⅜	-⅜
Xoma Corp		1802	5	4¾	4¾	-¼
Yellow		2008	22⅞	22	22¼	+⅛
York Rsch		15 235	7⅞	7⅞	7⅞	+⅛
ZionUtah	0.44 10	1123	33½	33	33½	+¼

AMEX PRICES

4 pm close June 18

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$4.875		15000	8.25	4.375	Esprit Telecom ADS	US$8		0	12.25	5.375
Artwork Systems	US$10.375		7685	11.125	9.5	Innogenetics	US$11.5		199350	12.75	10.375
Chemunex	FFr15.5	-0.5	200000	18	14	Mercer Internatl.	US$10		0	11.75	0.125
Dr Solomon's ADS	US$23.25	-1.5	1008	28.5	16.875	PixTech	US$4.125		8	0.125	3.875

Prices for 18/6/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

Dow slips on heavy tech sector selling

AMERICAS

Heavy selling of technology stocks, reversing the strength displayed during the last week, pushed all the main indices lower on Wall Street at midsession, *writes John Labate in New York.*

The Dow Jones Industrial Average was down 42.53 at 7,718.25 by midsession while the Standard & Poor's 500 index slipped 5.29 to 889.14.

Poor corporate results pushed large technology companies into the spotlight. Seagate Technology plunged $5¼ or 12.7 per cent to $36⅛ after its profits warning for the second quarter after the market closed on Tuesday.

Oracle, the software company, also suffered heavy losses, shedding $2⅝ to $50⅝, in spite of results that were broadly in line with expectations. Other fallers included Microsoft, off $3⅝, at $130⅞.

The financial services sector put in a lively performance helped by several takeover rumours. Advanta, the Pennsylvania-based credit card specialist bank, which warned on profits and announced a strategic review earlier this year, registered strong gains on speculation that a sale was imminent.

By midday its A-shares had gained $2⅝ to $34½, a rise of 8.3 per cent.

American Express continued to prosper on speculation that it had renewed talks to be acquired by Citicorp.

By midsession, it had gained $1¾ to $78⅛ while Citicorp had shed $1¼ to $120. Other card issuers fared well on figures showing a fall in credit card debts overdue for May.

Speculation on the tobacco industry's attempts to meet a settlement with states' attorneys general led to falls of more than 2 per cent in the prices of Philip Morris, down $1⅞ at $45⅝, and RJR Nabisco, $¾ lower at $34⅝.

TORONTO moved lower along with Wall Street in a morning of relatively light trading. At the noon calculation, the 300 composite index was off 24.74 on the previous close at 6,507.60.

Canadian Pacific ran into profit-taking after Tuesday's strong gains, slipping 35 cents to C$39.45. Alcan Aluminium lost 35 cents to C$49.50 on negative labour pact news.

Newbridge Networks shed 60 cents to C$59.65. Golds were dull. Barrick Gold came off 60 cents to C$32.95 and Placer Dome ended the morning 30 cents lower at C$24.60.

CS Resources jumped 95 cents to C$15.90 after a C$16.00 takeover offer from PanCanadian Petroleum. Gulf Canada Resources, which had earlier made an offer for CS, bounced on the news of the counter bid. Its shares added 25 cents at C$11.95.

Mexico City moves lower after record

Latin American centres had a mixed morning, unsettled by a weak Wall Street start.

MEXICO CITY moved lower in quiet trading after hitting record highs for five straight sessions. Telmex retreated 14 centavos to 18.56 pesos. At midsession, the IPC index was 18.21 lower at 4,258.62.

SANTIAGO quickly gave up initial gains to close at midsession with the IPSA index down 0.16 at 133.01. LabChile, the drugs group, was a clear feature, rising 2.5 per cent to 27 pesos.

BUENOS AIRES edged higher. Dealers cited technical factors resulting from this week's options expiries. At midsession, the Merval index was up 0.52 at 801.48.

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms June 13 1997	Dollar terms % Change over week	Dollar terms % Change on Dec '96	Local currency terms June 13 1997	Local currency terms % Change over week	Local currency terms % Change on Dec '96
Latin America	(248)	719.11	+3.7	+33.7			
Argentina	(30)	1,171.72	+1.4	+23.3	718,870.17	+1.5	+23.3
Brazil	(68)	586.96	+5.3	+48.1	2,358.75	+5.5	+53.1
Chile	(46)	819.35	+4.8	+32.1	1,366.55	+4.3	+29.6
Colombia[1]	(14)	838.21	+0.8	+32.6	1,606.08	+1.3	+42.4
Mexico	(64)	654.09	+2.5	+23.5	2,243.70	+2.0	+24.8
Peru[2]	(17)	264.58	+0.4	+34.5	430.14	+0.4	+37.7
Venezuela[3]	(9)	844.40	+3.0	+16.0	9,418.44	+2.7	+18.1
Asia	(709)	238.37	-1.2	-5.7			
China[4]	(27)	79.07	-3.8	+7.3	82.77	-3.8	+7.2
South Korea[5]	(156)	88.51	+4.1	+14.6	103.31	+3.8	+20.3
Philippines	(42)	247.60	+2.0	-15.7	315.54	+1.9	-15.4
Taiwan, China[6]	(90)	172.63	+0.1	+12.6	180.74	+0.1	+14.2
India[7]	(77)	100.61	+4.7	+27.7	127.91	+4.8	+27.6
Indonesia[8]	(49)	130.59	+0.6	+2.3	172.27	+0.5	+5.2
Malaysia	(148)	292.45	-3.0	-13.1	271.31	-3.0	-13.6
Pakistan[9]	(28)	237.65	+2.6	+21.4	437.07	+2.6	+22.2
Sri Lanka[10]	(5)	124.82	+6.4	+31.3	159.25	+6.3	+35.3
Thailand	(87)	130.30	-10.0	-41.1	133.55	-3.3	-40.7
Euro/Mid East	(264)	159.94	-0.4	+19.1			
Czech Rep	(7)	56.63	+3.6	-18.3	61.08	+1.3	-3.8
Egypt	(16)	96.43	-0.0	-	96.29	-0.9	-
Greece	(54)	366.81	+2.2	+51.4	683.37	+2.2	+68.7
Hungary[11]	(12)	263.94	-1.2	+34.1	589.96	-0.5	+54.2
Israel	(40)	126.31	+0.5	+26.3	132.90	+0.6	+32.9
Jordan	(7)	197.68	-0.7	+5.9	295.01	-0.7	+5.8
Morocco	(5)	122.85	-2.4	-	127.91	-2.3	-
Poland[12]	(30)	722.99	+3.6	-1.3	1,476.91	+4.1	+12.0
Portugal	(26)	186.98	+2.5	+27.9	225.57	+2.9	+44.7
Russia	(15)	130.11	+1.2	-	133.39	+1.2	-
Slovakia	(5)	96.08	-4.9	-	99.28	-5.2	-
South Africa[13]	(63)	236.33	-0.2	+13.3	219.70	+0.2	+9.0
Turkey[14]	(58)	200.72	-6.4	+35.0	13,752.95	-4.8	+80.4
Zimbabwe[15]	(5)	590.41	+4.6	24.7	984.06	+4.6	+30.4
Composite	(1221)	331.35	+0.8	+12.3			

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 8 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Just as investors in the Thai stock market were beginning to assimilate last week's move by the central bank to restrict overseas remittances of baht gained from equity sales, a host of new worries about politics and the financial sector emerged to batter the main index, *writes Ted Bardacke.* The SET index, which closed down 3 per cent yesterday at 482.94, has slipped below the key 500-point barrier for the first time since 1989, and is down 42 per cent on the year.

The currency regulations require baht earned from selling share to remain in Thailand. So far, they have proved successful in preventing investors from selling their Thai equities to raise baht for arbitraging purposes overseas. If investors want to remit funds overseas, they can do so only in foreign currencies. Brokers say the new regulations do not amount to an imposition of foreign exchange controls but that their foreign clients are reluctant to invest for fear that such controls may eventually be put in place as Thailand continues to do battle with currency speculators.

The currency move stabilised the market for a few days. Yesterday, however, the finance minister, Mr Amnuay Viravan, said that be would submit his resignation today after being snubbed by the cabinet in his attempt to contain the hudget deficit this year and next. Investors are also concerned about the ability of the Thai authorities to design and implement a programme to clean up the financial system before it becomes a black hole sucking down government funds and rendering a defence of the currency impotent.

The banking sector, the traditional refuge for foreign investors, has been the target of much of the recent selling, declining 5.5 per cent yesterday. Banks will be required to disclose their levels of non-performing loans for the first time beginning in July and many investors believe these numbers will be very high, or even worse, fudged.

Novartis shoots up, Zurich at peak

EUROPE

An upbeat presentation to analysts sent Novartis rocketing 3.8 per cent higher and propelled ZURICH back into to record-breaking territory.

The pharmaceutical gronp's presentation, in which it outlined details of its researcb programme including 11 products in the new drngs pipeline, prompted a number of analyets to reconfirm buy recommendations and to increase already bullish growth forecasts.

The shares jumped SFr84 to SFr2,002 as Novartis executives said that their aim was to introdnce three commercially attractive products a year.

Tha Novartis gains were sufficient to overcome early weakness in the market and to send it higher after two days of consolidation. The SMI index rose 59.1 to an all-time high of 5,405.0, up from an early low of 5,335.0.

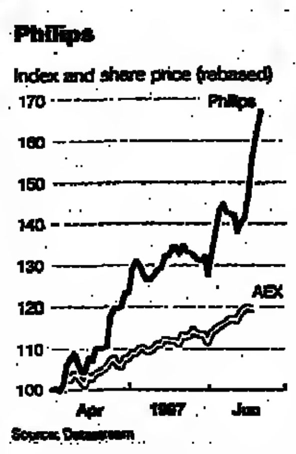
CS Group, under pressure over the previous 10 sessions, clawed back SFr4.50 to SFr189 although old merger and spin-off rumours continued to do the rounds.

Sulzer, sharply higher in recent sessions on details of the Sulzer Medica spin-off, gave up SFr34 to SFr1,261.

PARIS continued to lose ground ahead of today's policy statement from the new government. Sentiment was also checked by the news that BZW had moved from "overweight" to "neutral" on France.

The UK hroker expects earnings to slow appreciably this year and next and sees the recent change of government as a setback for corporate restructuring. In quiet trading, the CAC 40 index ended off 10.86 at 2,751.74 in a sub-average 10.9m shares traded.

LVMH fell FFr26.00 to FFr1,507 on the news that it had taken a small stake in Grand Metropolitan of the UK and following a move from buy to hold by French hroker Dupont Denant. The luxury goods group is opposed to GrandMet's merger with Guinness.



A US drug story got firmly behind Rhône Poulenc, lifting the shares FFr3.30 to FFr201. The group has submitted an application to the FDA for a tablet form of a drug used to curb hed-wetting among small children.

Pathe, which has a 17.5 per cent stake in BSkyB, tumbled FFr93.00 or 6.9 per cent to FFr1,265 as shares in the satellite TV hroadcaster's shares fell steeply for the second day running.

AMSTERDAM edged back up to within a whisker of record highs thanks to another strong performance from Philips and a bounce for Nedlloyd. The AEX index gained 1.98 to 849.13.

Philips, which rose strongly on Tuesday following news of its telecoms equipment tie-up in the US, continued to power forward. The shares rose Fl 8.90 to Fl 137.80, a two-day advance of more than 13 per cent.

Reports that its joint venture with P & O was among the container transport companies planning to raise shipping rates on westbound routes from the Far East left Nedlloyd Fl 2.40 or 4.7 per cent higher at Fl 53.

FRANKFURT passed another subdued session with a stronger Dax futures contract putting the brake on declines from profit-taking and the early losses on Wall Street. The Ibis-indicated Dax closed 9.38 firmer at 3,730.56 in volume that picked up to DM11.2bn.

Hoechst overcame an early slide to close flat at DM69.01 after a press report, citing an internal company document, said that the company would post a 7 per cent drop in operating profit and an 16 per cent decline in sales. VW picked up DM16.45 to DM1,218.45 ahead of its shareholders meeting today and Karstadt was down DM4.50 at DM648.50 ahead of its annual news conference.

STOCKHOLM met with furthar profit-taking, sparked partly by a renewed outbreak of scare stories at Pharmacia & Upjohn. The general index ended off 13.74 at 2,888.02.

Rumours that P&U was poised to put out a profits warning resurfaced and the shares fell sharply from the outset. Sentiment was not helped by a move from "accumulate" to "reduce" by Swedish broker, Aros. The stock ended SKr6.50 lower at SKr258.5.

MADRID was higher as company news and technical factors brought in buyers and the general index finished 5.96 higher at 577.80.

Among the winners, Telefónica rose Pta40 to Pta4,290 on news that it had settled its dispute with Airtel, the mobile telephone operator.

Cofir rose Pta13 to Pta630 after news that it was increasing its stake in NH Hotels was well received by analysts.

MILAN was supported by strong US demand and firmer bond futures, which rose on the view that the launch of the single currency will take place as scheduled at the start of 1999 and Italy will among the first wave of members. The Comit index rose 0.59 to 797.16 while the real-time Mibtel index, 213 higher at 12,930, reflected a late wave of buying.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 18 THE EUROPEAN SERIES Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2427.79	2425.62	2425.19	2425.72	2426.98	2424.66	2426.83	2427.88
FTSE Eurotrack 200	2430.33	2428.67	2432.20	2432.81	2434.86	2430.69	2435.49	2437.50

	Jun 17	Jun 16	Jun 13	Jun 12	Jun 11
FTSE Eurotrack 100	2446.48	2451.85	2441.70	2406.56	2385.82
FTSE Eurotrack 200	2454.20	2471.83	2473.84	2445.01	2426.41

Base value 1000 (26/10/90); Highday: 100 - 2428.61; 200 - 2437.58 Lowday: 100 - 2422.19 200 - 2428.81 † Partial.

Japan trade surplus sends stocks down

ASIA PACIFIC

Tokyo declined on growing currency uncertainty following news of the sharp increase in Japan's trade surplus for May, *writes Gwen Robinson.*

The Nikkei 225 average fell 95.81 to 20,497.85 after moving between 20,428.74 and 20,620.36. Stocks opened higher bnt soon fell into negative territory on fresh concerns that the May trade surplus, which tripled from a year earlier, would drive the yen up against the dollar. The dollar subsequently fell to Y112 at one stage, but its slight recover later in the day helped equities resist further declines.

Volums fell from 399m shares to an estimated 302m. Declines led advances 701 to 354 with 188 unchanged. The Topix index of all first-section stocks fell 5.67 to 1,531.71 and the capital-weighted Nikkei 300 was down 1.04 at 296.09.

Renewed currency concerns hit blne-chip exporters, particularly car makers. Honda, which fell Y60 to Y3,340, also suffered from reports that it will cut output of sport-utility vehicles in response to falling sales in the wake of the April 1 sales tax increase. Toyota shed Y60 to Y3,340, Daihatsu fell Y14 to Y660 and Suzuki Y10 to Y1,450.

Among leading electricals, Sony weakened Y50 to Y9,750 and TDK Y40 to Y8,320. High-technology stocks, however, drew buying interest generated hy the strong performance of the sector on the New York exchange. Advantest gained Y160 to Y8,800 after hitting a new intra-day high for the year of Y8,820 in earlier trading. Kyocera advanced Y210 to Y9,010.

Leading financials mostly retreated. Among the exceptions was Dai-Ichi Kangyo Bank, which gained Y30 to Y1,440 in spite of its involvement in a widening scandal over links with corporate racketeers. Long-term credit banks were hit by reports that the finance ministry had stopped purchases of the hanks' interest-bearing dehentures in April and planned to cease buying discount bank debentures altogether in the next few years. Long-Term Credit Bank of Japan fell Y5 to Y418 and Nippon Credit Bank slipped Y7 to Y237.

Hokkaido Takushoku Bank fell Y7 to Y163 after gaining yesterday on Monday's news that it will co-operate with Barclays Bank in the Japanese market.

Seven-Eleven Japan climbed Y120 to Y8,910 and Seiyu Y20 to Y975. Jusco gained Y90 to Y3,960 after sliding in recent sessions following the arrest of its president on charges of involvement in the Dai-Ichi Kangyo Bank scandal.

In Osaka, the OSE average fell 60.36 to 21,336.21 and volume edged up to 15.3m shares.

HONG KONG ended weaker but well above the day's low. The Hang Seng index closed off 103.26 at 14,203.89 having trailed by 307 points at one stage during the session. Red chips rose across the board, accounting for four out of the five most actively traded shares.

China Everhright surged HK$4.65 or 37 per cent to HK$17.25 following confirmation that the group is to acquire 20 per cent of Everbright Bank of China. CCT Telecom jumped 17 cents or 33 per cent to 69 cents on the news that the Xinhun News Agency is to take a stake.

SEOUL closed sharply lower as investors took profits following the latest round of sahre-rattling by North Korea. The composite index lost 19.08 or 2.4 per cent to 773.21.

WELLINGTON closed at a four month high, helped by easier money market rates. The 40 capital index added 32.18 or 1.4 per cent at 2,400.21.

SYDNEY closed lower on profit-taking among banks and resource stocks. The All Ordinaries index eased 3.3 to 2,673.4.

SOUTH AFRICA

Heavy turnovar and a strong day for Gencor pushed Johannesburg's all-share index higher on a mixed day for industrials and golds. Turnover hit a record R2.8bn and the all-share closed up 26.3 at 7,218.4. Industrials dipped 0.6 to 8,432.1 and golds came off 3.8 at 1,096.7.

Gencor shot forward by R1.65 or 7 per cent to R20.75.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	Tue Jun 17 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Mon Jun 16 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar Index 52 week High	52 week Low	Year ago (approx)
Australia (76)	237.11	0.8	214.61	169.99	213.73	210.21	0.5	3.68	235.13	212.79	168.64	211.42	208.89	237.11	188.44	199.93
Austria (24)	193.88	-0.8	175.49	139.01	174.77	174.68	-0.5	1.91	195.35	176.79	140.10	175.65	175.56	200.52	174.70	192.03
Belgium (26)	251.30	-1.3	227.45	180.17	226.51	221.77	-1.0	3.22	254.52	230.33	182.54	228.85	223.95	255.67	208.70	213.85
Brazil (30)	291.77	1.0	264.09	209.18	263.00	576.75	1.0	1.26	288.98	261.52	207.28	259.84	571.03	291.77	170.26	171.74
Canada (112)	211.16	-0.5	191.15	151.41	190.36	211.94	-0.1	1.65	212.19	192.02	152.16	190.79	212.25	212.99	154.12	159.29
Denmark (32)	387.08	-0.5	350.33	277.50	348.88	347.67	-0.2	1.46	388.97	352.01	278.97	349.74	348.32	391.53	297.77	297.77
Finland (28)	273.14	-1.2	247.22	195.82	246.20	297.09	-1.2	1.53	276.44	250.17	198.26	248.56	300.59	279.84	186.67	192.89
France (91)	224.75	-1.4	203.42	161.13	202.58	206.20	-1.1	2.75	227.82	206.17	163.39	204.84	208.43	232.34	186.94	196.76
Germany (59)	215.71	-0.8	195.24	154.65	194.43	194.43	-0.6	1.45	217.51	196.84	156.00	195.57	195.57	217.51	169.70	170.50
Hong Kong (66)	502.06	-0.4	454.42	359.94	452.54	498.93	-0.4	3.03	503.96	456.07	361.44	453.13	500.95	528.88	407.55	424.37
Indonesia (27)	245.04	-0.2	221.79	175.68	220.87	365.06	-0.2	1.51	245.54	222.21	176.10	220.78	365.81	-	-	-
Ireland (17)	350.93	-1.1	317.63	251.59	316.32	327.93	-0.4	2.89	354.64	320.84	254.35	318.88	329.21	354.64	270.08	290.11
Italy (59)	61.89	-0.6	63.17	65.88	82.82	116.47	-0.5	2.16	92.30	83.53	66.20	82.99	117.03	98.32	73.26	81.69
Japan (485)	139.00	-0.3	125.81	99.66	125.30	99.66	-0.4	0.79	139.48	126.21	100.02	125.39	100.02	158.25	107.57	155.97
Malaysia (107)	520.20	0.2	470.84	372.95	468.90	503.17	0.0	1.36	519.05	469.73	372.26	466.70	502.96	660.85	510.10	551.34
Mexico (27)	1525.21	0.2	1380.49	1093.49	1374.79	13253.99	0.1	1.40	1522.21	1377.55	1091.72	1368.68	13242.05	1525.21	1110.35	1227.97
Netherland (19)	391.29	-0.7	354.16	280.53	352.70	348.34	-0.5	2.23	394.22	356.76	282.73	354.46	350.01	394.22	279.88	297.76
New Zealand (14)	91.20	0.0	82.55	65.39	82.21	70.18	0.0	4.10	91.23	82.56	65.43	82.03	70.18	95.60	78.22	78.22
Norway (41)	307.77	0.3	278.56	220.65	277.41	303.29	-0.2	2.03	306.85	277.69	220.07	275.90	303.80	321.23	246.04	256.56
Philippines (22)	167.58	0.5	151.68	120.15	151.06	220.27	0.5	0.65	166.68	150.84	119.54	149.87	219.10	-	-	-
Singapore (42)	385.39	0.4	348.82	276.30	347.38	253.36	0.4	1.18	383.92	347.44	275.35	345.20	252.29	448.01	360.08	414.11
South Africa (44)	354.90	-1.8	321.23	254.45	319.90	349.89	-1.5	2.47	361.36	327.02	259.17	324.91	355.26	370.12	301.49	359.83
Spain (35)	252.51	-1.4	228.55	181.04	227.61	280.00	-1.2	2.33	256.17	231.83	183.72	230.33	283.51	262.42	171.91	181.90
Sweden (49)	464.95	-0.7	420.83	333.34	419.09	534.49	-0.7	1.93	468.22	423.72	335.81	421.00	538.38	468.22	334.35	354.62
Switzerland (35)	298.03	-0.8	269.75	213.67	268.63	267.50	-0.3	1.25	300.55	271.99	215.55	270.24	268.26	301.09	231.69	238.17
Thailand (43)	50.98	-6.3	46.14	36.55	45.95	51.11	-6.3	8.11	54.40	49.23	39.02	48.92	54.56	172.82	50.98	167.87
United Kingdom (212)	302.58	-1.2	273.87	216.93	272.73	273.87	-1.2	3.68	306.36	277.25	219.72	275.46	277.25	306.21	229.63	235.51
USA (649)	362.03	0.1	327.69	259.55	326.32	362.03	0.1	1.69	361.61	327.24	259.34	325.14	361.61	362.03	254.79	271.06
Americas (818)	331.13	0.1	299.71	237.40	298.47	278.91	0.1	1.89	330.79	298.36	237.24	297.43	278.59	331.13	233.09	247.51
Europe (727)	265.25	-1.0	240.09	190.17	239.09	246.92	-0.9	2.60	268.01	242.54	192.22	240.98	249.07	268.01	204.71	211.07
Nordic (150)	397.76	-0.8	360.02	285.17	358.53	395.61	-0.7	1.61	400.30	362.26	287.10	359.93	398.49	401.08	291.45	303.69
Pacific Basin (882)	156.20	-0.2	141.36	111.98	140.79	113.37	-0.3	1.25	156.56	141.68	112.28	140.77	113.69	170.85	127.16	168.36
Euro-Pacific (1609)	201.71	-0.7	182.57	144.62	181.82	163.78	-0.8	1.99	203.07	183.77	145.64	182.59	164.75	203.07	173.56	186.05
North America (761)	352.71	0.1	319.24	252.87	317.93	352.05	0.1	1.70	352.40	318.91	252.74	316.86	351.68	352.71	248.65	264.18
Europe Ex. UK (515)	239.07	-0.9	216.39	171.40	215.49	226.44	-0.7	1.99	241.28	218.35	173.04	216.94	227.95	241.28	185.65	192.60
Pacific Ex. Japan (397)	306.82	0.1	277.71	219.97	276.56	269.46	0.0	2.77	306.56	277.43	219.88	275.64	269.43	320.65	268.97	284.44
World Ex. US (1822)	205.37	-0.7	185.88	147.24	185.12	170.48	-0.6	1.97	206.71	187.07	148.25	185.86	171.45	206.71	176.94	187.16
World Ex. UK (2259)	250.70	-0.2	226.91	179.74	225.98	220.47	-0.1	1.85	251.16	227.31	180.14	225.84	220.79	251.16	199.58	210.84
World Ex. Japan (1986)	315.03	-0.2	285.15	225.85	283.97	305.11	-0.2	2.06	315.93	283.61	226.59	284.07	305.78	315.93	233.10	244.57
The World Index (2471)	255.20	-0.3	230.99	182.96	230.03	225.50	-0.2	1.84	255.94	231.62	183.56	230.13	226.06	255.94	202.32	213.06

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POWER GENERATION EQUIPMENT

Industry faces unprecedented demands

Competing suppliers are working hard to enhance performances so as to win market share, but not all of them will be rewarded for their efforts, reports **Stefan Wagstyl**

The battle for survival in the power engineering industry shows little sign of coming to an early end.

Even though the world's demands for power generation equipment are growing, tough competition among suppliers has depressed prices and squeezed margins. In the past year, Rolls Royce, the UK engineering group, has bowed out of the market for big power stations by selling Parsons Power Engineering Systems, once one of the most famous names in steam turbine manufacturing.

But Rolls Royce's partial retreat from the industry (it remains a maker of smaller turbines) will do little to reduce the total excess capacity that the industry acquired in a hasty over-expansion in the 1980s and early 1990s. That would require a much more significant producer to give up the fight.

After four years in which prices have fallen by an estimated 50 per cent, there are signs that the market may be stabilising at its unprecedentedly low price level.

"It may be wishful thinking but I think prices are not falling as fast as before," says Mr Adolf Hüttl, president of KWU, the power generation division of Siemens of Germany. "But at this level everybody is having headaches."

In volume terms, most producers think the market is growing steadily, powered mainly by demand from east Asia. General Electric, the world's largest manufacturer, estimates orders will grow at about 2.5 per cent a year for the next decade. ABB, the Swiss-Swedish group, is a little more optimistic with a forecast of 2-4 per cent growth.

However, Mr Randy Zwirn, executive vice president in charge of power systems at Westinghouse Electric, says order increases could be delayed as 1997 has started much worse than last year.

With profits limited in the new equipment market, manufacturers are putting ever-increasing emphasis on raising income from after-sales services, which already accounts for 50 per cent of turnover at some companies and an even bigger chunk of profits. Once the dowdy end of the industry, services now encompass an increasing range of sophisticated high-margin operations – such as on-line monitoring of clients' power stations. Utilities say that power equipment companies will even sell equipment at a loss in the hope of making bumper profits from services.

Although producers do not give detailed financial figures, it seems clear that service income contributed substantially to improved profits in the industry last year. Of the six integrated manufacturers, three – GE, Siemens, and Japan's Mitsubishi Heavy Industries – posted big increases in profits from power generation. GEC Alsthom, the Anglo-French group which has yet to report results for the year ending March 1997, says its profits were flat. At ABB, power generation profits slumped 39 per cent to $561m (compared to a strong 1995 result) due partly to rationalisation charges. Westinghouse slipped deeper into the red in power generation, with a loss of $183m, after rationalisation and other special charges. Without these the business would have made modest profits but the figures exclude other serious losses from nuclear engineering.

"Everybody is under pressure but with cost reductions we ought to see some improvement in margins," says Mr Mike Barrett, commercial director of the power generation business at GEC Alsthom.

Mr Barrett's cautious comment contrasts sharply with the optimism which gripped the industry in the late 1980s and early 1990s, when it expanded capacity. It hoped to capitalise on deregulation in the developed world, which was creating opportunities for independent power producers, and from strong demand in fast-growing east Asian countries, notably China.

But orders have grown less rapidly than expected, leaving manufacturers with excess capacity. This is particularly true in gas turbines, a fast-evolving technology in which suppliers invested especially heavily. GE estimates that gas turbine capacity rose 70 per cent in the early 1990s to 36,000MW a year, about 20 per cent ahead of output. In steam turbines, which are used in traditional coal-fired and in nuclear plants, overcapacity of 70,000MW is about 10-15 per cent ahead of annual demand, according to GE. However, the competition in steam turbines is even more cost-sensitive, because producers in the developing world and in ex-Communist countries are capable of manufacturing the equipment, notably in China and Russia.

Deregulation has not produced a bonanza because its influence has proved far more complex than anticipated, both in the developed and the developing world. Where utilities once routinely passed cost increases on to customers, today's power generators are increasingly forced to operate in competitive markets.

The extent to which this transformation has occurred varies greatly. It is particularly far advanced in the UK and steadily moving ahead in the US, but is still in its earliest stages in other western European countries and in Japan.

In the developing world, it is proving far easier to sketch a project than to finance it, because of the risks and novelties involved. Hagler Bailey, the US consultancy, says that proposals for independently-financed projects outside north America are soaring, with 638 projects for 153,000MW launched last year, taking the total to 2,480 with 862,000MW. But only 56,000MW of independently-financed power production has actually been brought on stream in the 1990s.

As a result, plant manufacturers expect little recovery in demand in north America or western Europe before 2005. In eastern Europe and the former Soviet Union, the decline in industrial production which followed the collapse of Communism has created excess generating capacity. Investment is sorely needed in up-dating old plants to cut pollution and increase fuel efficiency. But funds are in short supply, except for important

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☐ *Also in this survey: international markets, see pages 2 to 5.*
☐ *Project finance: page 4.*
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Editorial production: Michael Wiltshire. Graphics: Andrew Burns (page one), Bob Hutchison and Steve Bernard

CHINA'S POWER SECTOR • by Tony Walker in Beijing

Keeping bidders in suspense

Foreign power equipment suppliers competing for the supply of turbines and generators for the world's largest hydro-electric project reads like an industry 'who's who'

China's power sector appears at last to be freeing itself from regulatory and bureaucratic coils which have constrained development and frustrated foreign investors.

Beijing's approval of the first private, foreign-owned power station is regarded as encouraging by investors. Laibin B, a $650m 700-megawatt coal-fired facility in southern Guangxi region, is touted by China as a "model" for other such projects.

Similarly, the announcement last December by GE Capital of the US of a $250m agreement to upgrade the Zhabei power station in Shanghai presents another possible avenue for foreign power sector investors. GE described the investment as the "first long-term, non-guaranteed commercially financed power project in China."

Both the Laibin and Zhabei projects are proceeding without Chinese sovereign bank guarantees – a sticking point in the past.

China's agreement to drop its insistence on limiting the rate of return on power projects cleared the way for both Laibin and Zhabei. Foreign operators and their bankers had viewed as unacceptable attempts by China to "cap" – at unrealistically low rates – the profitability of power projects.

But approval for Laibin and Zhabei does not necessarily mean there will be a flood of new foreign-invested power projects under build-operate-transfer (BOT) typa arrangements.

Beijing is likaly to proceed cautiously until it is satisfied that "models" such as Laibin are working satisfactorily. However., pressures on the government to bridge the gap between electricity supply and demand will continue to provide an impetus for foreign investment.

It is estimated that power-shortages, especially in energy-starved southern areas where growth is most rapid, shave 1-2 percentage points from GDP growth.

China plans to spend Yn690bn ($85bn) on the power sector during its ninth five-year plan (1996-2000), about 20 per cent from foreign sources, including "soft loans" and commercial money. It intends to add 15,000MW a year to the present total of around 200,000MW by 2000. But this will still leave China chronically short of electricity to power its economy which has grown on average by 10 per cent annually since it opened to the outside world nearly two decades ago.

Daning River: part of the region that will be flooded to create the controversial and technically challenging Three Gorges hydro project, due for completion in 2009 *Picture by Malcolm Watson*

A western embassy study notes that China has fallen short of its own targets of 15,000-17,000MW of new capacity annually. The study also pointed out that because the country's power plants have utilisation rates higher than world standards, plant and equipment degrade prematurely.

Inevitably, the study said, China is under pressure not only to develop capacity, but also to replace outdated and inefficient equipment.

But China certainly cannot be accused of standing still in its efforts to get on top of its power supply problems. It is "corporatising" its Ministry of Electric Power, separating commercial activities from the ministry's regulatory responsibilities, to expedite the "commercialisation" of the power sector.

China has also established a National Grid Construction company to manage completion of a Chinese grid by 2009 – the year when the giant Three Gorges hydropower project on the Yangtze is due for completion.

A separate company will manage power distribution through the national grid.

Overshadowing all this activity is construction of the Three Gorges dam itself, a $30bn project, regarded by the Chinese as a symbol of their modernisation drive. At capacity, the 18,200MW project will prodnce 84.7bn kWH, one-ninth of the 1993 national total.

It is by far the world's biggest bydro-electric power project, probably the most challenging technically and certainly one of the most controversial, politically. Bids are being processed now for equipment supplies for the first stage: 14 of 26 700MW power units, including turbines and generators.

Bids have also been called for civil works. Bidders include six domestic civil engineering companies. They will be responsible for dam wall construction, spillways, and structures housing turbines and generators.

Foreign power equipment suppliers competing for supply of turbines and generators read like an industry "who's who". Consortia include Anglo-French group GEC-Alsthom and Neyrpic of France; Mitsubishi Heavy Industries at the head of a Japanese group; Impsa of Argentina and Turboatom of Ukraine; Voith and Siemens of Germany, and General Electric of Canada; LMZ representing Energomachexport of Russia and Sulzer of Switzerland; and ABB Power Gen of Switzerland and Kvaerner of Norway.

The Three Gorges Project Construction Committee of the State Council, or cabinet, is presently evaluating bids and is expected to make recommendations within the next month or so. A signing ceremony is planned for August. Front runners for supply of turbines are thought to include Voith of Germany, Kvaerner of Norway, Neyrpic of France and GE of Canada. Siemens, ABB and GEC-Alsthom are believed to be leaders in the tussle for generators.

Meanwhile, the Chinese authorities are giving little away, keeping bidders in suspense until the last moment. For equipment suppliers chasing their biggest-ever contracts, the stakes could hardly be higher.

The planned $30bn Three Gorges hydro-electric power project on the Yangtze is regarded by the Chinese as symbol of their modernisation drive *Picture by Malcom Watson*

Generating competition

1st stage bidders for Three Gorges dam

CONSORTIA	FINANCING
GEC - Alsthom, Neyrpic of France	Coface
Mitsubishi Heavy Industries, Hitachi, Mitsui, Itochu of Japan	Export-Import Bank of Japan
Impsa of Argentina, Turboatom of Ukraine	Not available
Voith and Siemens of Germany General Electric of Canada	Hermes EDC of Canada
LMZ (Energomachexport of Russia; Sulzer of Switzerland)	Swiss government
ABB Power Gen of Switzerland Kvaerner of Norway	Swiss government ECGD of UK*

Source: Three Gorges Commission *No firm commitment

INDIA • By Sunil Saraf in New Delhi

An agonising wait

India's power shortfall is worsening, with shortages of 30 per cent in the most power-deprived states

Private sector power developers in India have had an agonising wait, but around 12,000 MW of fresh generating capacity is now poised to come on stream after a year-long wait for approvals from the central government for fuel supplies.

Construction of the new plants could begin within the next few months. The wait has been for guarantees that fuels will be allocated to the project. Supplies and sales of all petroleum products in India remain almost wholly controlled by central government, despite the past six years of economic reform.

The expected new capacity would represent a nearly a third of 34,000MW in capacity for "short-gestation" projects which have so far been proposed to Indian state governments by interested private investors.

The petroleum ministry started issuing fuel supply permits to some of the projects in April – most of which are to be fuelled by naptha. What concerned the ministry was fears over the stability of supply of naptha, worries about the possible import bill for the liquid fuel and concern, too, that increased Indian demand could push up world prices - and with them the eventual Indian power tariff.

Private developers offering the naptha-based projects must now move swiftly to finalise financing for their projects, which were a response to several Indian states calling for "fast gestation" power projects to meet their rising power shortages.

The projects have been given six months to pull together their financing packages, which will be a challenge; in that the private operators will have to win financially tight guarantees from the public sector enterprises which supply the fuel. Public sector operations in India have a poor record of meeting such strictly defined commercial conditions.

But even with the arrival of this new generating capacity, the response will fall a long way short of the 57,000 MW which has been estimated by the Central Electricity Authority in Delhi to be the additional need between now and 2002.

India's planning commission, which sets the targets for the five-year plan covering the period, believes new projects will in fact reach only 38,000 MW of the needed capacity. And already that figure is being quietly downgraded by some insiders, with a figure of 34,000 MW seen as more realistic. If so, India's dismal record of under-achievement in power generation will continue, worsening a power shortfall which averages 9 per cent across India and hits shortages of 30 per cent in the most power-deprived states. The preceding five-year plan, which ran up to 1997, had estimated that India would add 48,000 MW of new power in the period. In the event, the addition was just 17,668 MW.

The worsening crisis recently prompted the government, in its February budget, to increase allocations for public investment into power generation by a further Rs8bn on the Rs71bn already committed. The rise reflected government concern that its attempt to open the power sector to foreign and private investment in 1992 had put too much emphasis on private sector projects – which had in turn proved slow in proceeding.

Five years on, most private sector projects remain mired in bureaucratic delays and the complexities of reaching power purchase agreements acceptable to both state governments and the central government in New Delhi. Some projects have also been held up by the difficulties of reaching commercially viable agreements for provision of coal, notably the 1000MW Vizag project being pursued by National Power, the UK power group, and the Hinduja group, the "non-resident Indian" group. The joint venture is still to reach agreement with Coal India Limited and Indian Railways for guaranteed fuel supplies.

> The primary problem is the poor financial health of almost all the 19 state electricity boards

Altogether, out of more than 194 private power proposals received by Indian state governments - which in India have the effective jurisdiction over power purchase and run the state electricity boards which are the purchasers of private power - only 14 are believed actually to be under construction or producing power.

The primary problem is the poor financial health of almost all India's 19 state electricity boards. The planning commission reckoned in its annual review this year that the 19 utilities would make losses of Rs100bn ($2.79bn) - largely the result of offering uneconomic tariffs to farm and domestic consumers. Cheap power for farmers, in particular, was identified as the main cause - resulting from the state governments' political control of the state electricity boards, and the political importance to most state governments of the farming constituency.

The problem of the loss-making state power boards being unable to guarantee payments for private power prompted the government in 1992 to offer what amounted to sovereign guarantees to underwrite eight "fast track" projects, including the Dabhol power project in Maharashtra led by Enron, the US power group.

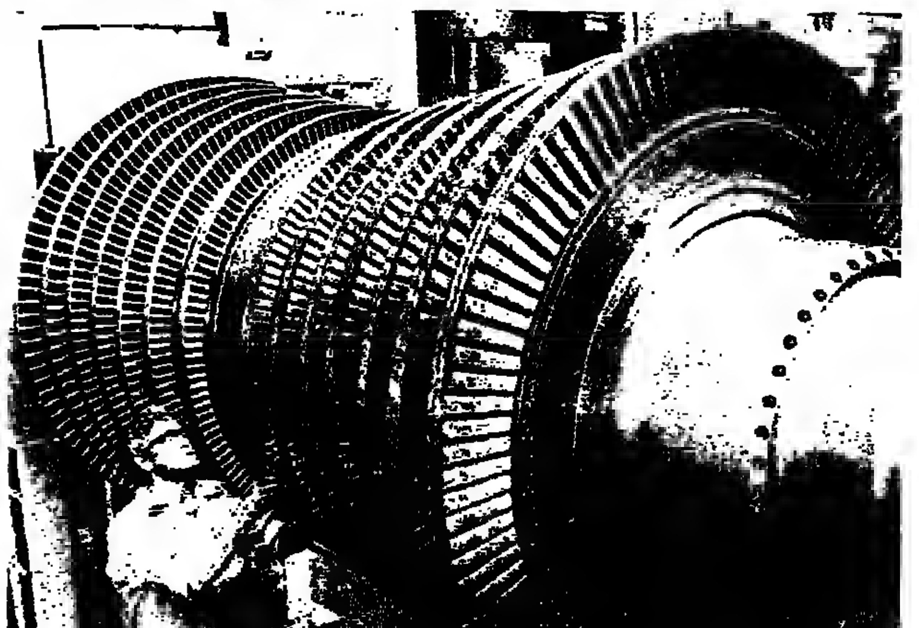
But so far only two of the projects have actually begun producing. Indeed, the only two "fast track" projects actually generating power, are doing so because they have gone ahead with construction even before the guarantees have been approved. These are the project led by GVK Industries, the Indian group, for a 420MW plant in Andhra Pradesh, and that led by Spectrum, the Indian group and the promoters of a 208MW project at Godavari also in Andhra Pradesh.

Altogether, five years into the private power initiative, only 513MW of India's total generating capacity of 83,000MW has been added by new private producers.

Of the foreign-led private projects, only the Dabhol Power Project is on course. The project was famously scrapped two years ago by the newly-elected Maharashtra state government while already under construction, before the state government reversed its decision a year later. Phase one of the project, a 740MW unit which will eventually be expanded to 2,400MW, is now well under way.

Most of the other "fast track" projects, including a 1,000 MW project in Mangalore, led by Cogentrix of the US, the 1,040 MW National Power/Hinduja project in Vizag, a 240 MW plant in Tamil Nadu led by CMS of the US, and a 420MW plant in Orissa contracted to AES Transpower, also of the US, are still struggling through state government reviews into the cost of the projects and the eventual power tariffs.

In virtually all cases, and particularly since the Dabhol project in Maharashtra, state governments have decided to take a harder look at deals they had already agreed with private contractors. And the projects have been further delayed in New Delhi, where the finance ministry, which opposed from the outset the notion of offering guarantees to back the projects, has not hurried the award of such guarantees, worried about the potential liabilities to the central government.



Construction of new power plants in India could begin within months. Pictured here is a 500MW intermediate pressure turbine rotor from GEC Turbine Generators, used at Rihand Power Station

EDF-GEC ALSTHOM POWER STATION

China's first power station financed entirely by foreign investment will be built in Guangxi province by Electricité de France and GEC Alsthom, the consortium leader. The Laibin 'B' BOT (build, operate, transfer) project is worth more than FF3bn.

☐ A similar power plant, *pictured left*, is located at Luo Huang in Szechuan province – one of 30 plants built by GEC Alsthom in China since 1957. The company has supplied equipment for coal, gas, nuclear and hydro projects.

INDIAN UTILITIES: TATA ELECTRIC COMPANIES • by Naazneen Karmali in Bombay

Troika stirs into action

Tata Electric Companies expect to invest Rs30bn in new projects over the next four years

In India's state-dominated and regulated power sector, the largest private utilities are the Tata Electric Companies (TECs); a troika of companies belonging to the Tata business group comprising Tata Power Company, Andhra Valley Power Supply Company and the Tata Hydro Power Supply Company.

Now more than 85 years old, the TECs have a combined generation capacity of 1,624 megawatts from four thermal and three hydro-electric units – private Tata-generated power supplies most of Bombay.

With a turnover of Rs23bn and net profits of Rs3bn, tbey have long been regarded as efficient, bnt rather sleepy entities. The three, which are separate companies under a joint management, won licences to provide private power between 1910 and 1920.

But today, six years after the Indian government allowed wider foreign and private participation in power, Tata Electric is shedding its conservative ways and stirring into action. It is venturing to establish power projects outside its home base of Maharasthra state and increasing capacity in existing units.

"We've been hibernating for a long time, but now we want to grow and evolve into a total energy company," says Mr Homi Sethna, chairman of Tata Electric.

Tata Electric recently won state government approval, after a long wait, to establish a new 450MW naptha-based plant at Bhivpuri in Maharashtra. It has also put in bids for two proposed new hydro plants in the state.

Further afield, the company is in the process of buying an existing 67.5MW plant from Tata Steel, a sister within the diversified Tata family, in eastern India. The plant's capacity will be expanded by 240MW at a cost of Rs9bn ($250m).

Tbe power group has meanwhile won approval for two "short gestation" projects of 40MW output each in the southern state of Karnataka, and is pursuing other projects in Andhra Pradesh, Gujarat, Orissa and even in the politically troubled state of Jammu and Kashmir.

Aside from extending its generating capacity, the company is spending Rs4bn to upgrade its transmission and distribution network in Bombay – a network which is already considerably more efficient tban state-run grids, which average T&D losses of between 20-40 per cent. Elsewhere, it is seeking to build a 400,000 kilovolt transmission line to link the southern cities of Mangalore and Banglaore in Karnataka.

Overall, says Mr Sethna, Tata Electric Companies expect to invest a total of Rs30bn in new projects over the next four years. And it is a thrust, analysts say, which has been prompted by the emerging competition under India's newly liberalised power regime. Two years ago, BSES, the private Bombay-based utility which is among TECs' biggest customers, commissioned a 500MW plant and became its biggest rival overnight. Now companies sucb as Enron, the US power group building the notorious Dabhol power plant in Maharashtra, along with local companies like Reliance Industries, the petrochemicals and textiles group, bave suddenly emerged as promoters of large-scale power projects.

Mr Sethna says TEC had been somewhat held back by inertia, used to cosy cost-plus arrangments which allowed the companies comfortable returns. Tariffs, under a 1948 electricity supply act were set to allow power companies to recover all costs and earn an additional return of 17 per cent on capital. Excess earnings, under the arrangement, have to be partly returned to customers. But Mr Sethna, a chemical engineer who spent much of his career as a bureaucrat with India's atomic energy programme, is determined to change the "cost-plus mentality".

He has set a target of cutting costs by 2 per cent a year. Though, according to Mr Nitin Anandkar, energy analyst at Jardine Fleming in Bombay, Tata Electric is already among the lowest-cost power producers in India, partly since 20 per cent of its power derives from its bydro plants which, being more than 50 years old, are already fully depreciated.

But now, with BSES, one of TECs' main customers, generating its own power, Tata Electric faces the challenge of finding new customers within its licenced area, where demand bas been growing by a modest 5 per cent a year.

The company had looked overseas, to Malaysia, Iran, Dubai and Saudi Arabia for opportunities, where it worked as a contractor to power projects. But now, says Mr Sethna, the big opportunities are seen to lie in India. And that's where the company's focus will be.

SOUTH-EAST ASIA • by Frank Gray

Attraction for overseas investors and suppliers

Demand is increasing for joint ventures involving local partners

South-East Asia may be the smallest of Asia's three main regions – China and South Asia being numbers one and two – but its eager embrace of privatisation has made its power sector the most attractive in Asia to overseas suppliers and investors.

Led by the Philippines, Indonesia, Malaysia and Thailand, several dozen independent power projects have either been completed or are under construction. In the Philippines, 26 international power projects (IPPs) have been completed, comprising approximately 3,400 megawatts of capacity. In Indonesia, 13 IPPs have been contracted for with a total capacity of 7,500 MW.

Malaysia has seen some 2,000 MW of independent power units built with more under way; Thailand has privatised its 1,350 MW Rayong power complex and the government has signed contracts for 21 small independent projects (SPPs) with a capacity of 1,124 MW. It is planning 4,100 MW of larger IPPs by 2002 after successful bids by 10 consortiums.

In addition to commissioning new IPPs, the four countries are pressing ahead with plans to restructure and privatise their own state-run utilities. The Philippines is preparing the entire flotation of the National Power Corporation's thermal assets; key hydro projects will be kept under state control. Individual thermal units run by NPC are also being prepared for sale to independent operators.

In 1992, Malaysia's sold a 22 per cent stake in its Tenaga Nasional Berhad (TNB) to the private sector; it is now restructuring the utility to prepare it for further privatisation.

According to Mr Ahmed Tajuddin Ali, the TNB chief executive, the ntility is setting up a generation unit that will manage and operate existing power plants; another unit, Tenaga Nasional Engeenering, will be responsible for consultancy and engineering project management.

By the autumn, TNB expects its spun-off power genarating unit to be supplying all the utility's power. The idea, he says, is to increase TNB's flexibility and make it more efficient.

Sharper focus

The decentralisation and corporatisation of the various units will lead to more focused accountability and efficiency in operation. Thailand's Electricity Generating Authority (EGAT) has already sold some of its assets and hopes to go fully into the private sector by 1999, although the utility's unions have stalled the sell-off timetable by a year.

Indonesia's PLN, the state utility, is undergoing a restructuring with plans for a minority share flotation, of two spun-off companies Genco 1 and Genco 2, each responsible for power geoeration on Java and Bali. This could take place by 1998, although given the scale of Indonesia's power requirements, this may take longer. According to analysts, what appears certain is that early in the next century, virtually all the ntilities in South-East Asia will be private sector companies, running alongside a multitude of independent power producers and, in some cases, power transmission and distribution companies.

The region itself plans to double its capacity by 2005, that is, add 100,000 MW of new capacity, some of whicb will be undertaken by the state and increasing amount of which will be private sector. This implies an order book of $100bn.

Increasingly, joint venture projects involving a local partner are required, and as much local sourcing as pssobible is encouraged, such as civil engineering on power projects. But utilities themselves will still have to source virtually all their hardware from companies in Nortb America, Europe and Japan. However, many equipment-makers are manufacturing within the region through overseas subsidiaries or in licensing deals with local manufacturers. This was emphasised recently by Asea Brown Boveri, the European consortium, which attributed its 16 per ceot increase in first quarter orders largely to "an increased demand from emerging markets." Revenues from Asia Pacific, says ABB, increased hy $527m to $8.7bn in 1996. "In Asia, we successfully moved from an export-based business to more local value-added. Our ambition is that by 2000, Asian orders will surpass $15bn," says Mr Goran Lindahl, the chief executive.

Grid operations

The utilities have been criticised for over-emphasis on generation and to little attentioo to grid operations. This was especially notable in the Philippines where, several years ago, a number of IPP schemes had virtually come on line but had no outlet through which to distribute their electricity.

While some progress has been made, largely thanks to aid support from the Asian Development Bank, the World Bank and the Japanese OECF, the issue sparked comment from the Paris-based International Energy ageocy, which called for more attention to grids and to grid maintenance.

"This would help reduce grid losses and make a significant contribution towards lowering costs, improving system reliability and enhancing utilities profitability," says the agency.

"Rural electrification programmes should be carried out independently from 'regular' urban-industrial electricity supply and, preferably, by separate rural development agencies which also promote the development of other types of infrastructure."

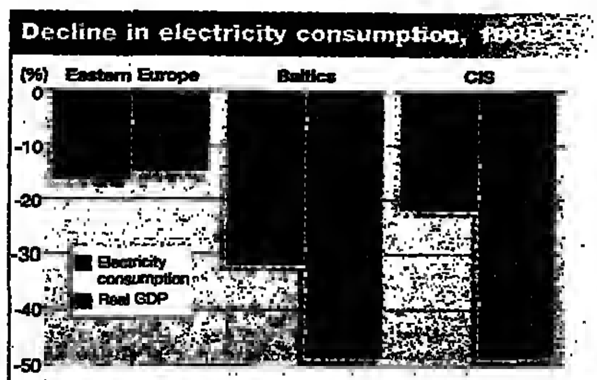
The agency adds that the region's government "should work towards basing both pricing structures and pricing levels on marginal cost to a greater extent than they do at present".

□ *The writer, Frank Gray is editor of 'Power in Asia', a Financial Times Energy Newsletter.*

EASTERN EUROPE • by Anthony Robinson

A story of declining capacity

Apart from Poland and Hungary, a lack of urgency delays power projects



Sources: International Energy Agency; EBRD

The ravages of time and lack of funds for even routine maintenance in many parts of eastern and south-eastern Europe in particular have whittled away the huge over-capacity which characterised the power generation industry aftar the centrally planned war-ecooomies of the communist world collapsed in 1989.

This has not yet led in the looming power shortages which would make heavy investment in new plant a necessity because industrial production remains far below 1989 levels in large swathes of the region, including Russia, Ukraine and the Balkan states.

The bardest hit have been the traditional beavy power consumers – notably the steel, armaments and chemical industries – and the collapse in their demand has far outweighed the modest growth in electricity demand from households and mainly small private industries.

The big exceptions to this picture of declining capacity and low demand are Poland *(see report, below)*, which is now into its fifth year of sustained economic growth and Hungary where industrial production surged 30 per cent over the last two years as Forint devaluation and tbe government's tight squeeze on domestic incomes forced producers into export markets.

The Czech Republic, which retains the bulk of its Soviet-era power engineering capacity intact is currently reeling from a flawed privatisation scheme which delayed the rationalisation and modernisation of its enterprises. An overdne shake-ont of its heavy engineering sector is likely to result. Meanwhile, lower than expected growth will keep electricity demand subdued until the Temelin nuclear power station comes on stream towards the end of the decade.

Despite the lack of urgency for new additional capacity in the region, however, the need to tackle the pollution, cost and reliability problems with ageing conventional and nuclear power plants, coupled with economic recovery in much of central Europe – including some of the Baltic states and Slovenia and Croatia – translates into increased investment in re-habilitation, modernisation and environmental protection schemes to raise both efficiency and safety.

Billions of dollars are now available from the international financial institutions for such investments. The World Bank alone has a $5.6bn portfolio of energy-related investment projects, mainly in Ukraine and Russia but including big district heating renewal projects in Bulgaria, a quick-start gas turbine project in Hungary and two big power generation rehabilitation projects at Dolna Odra and Rybnik in Poland. Two other leading sources of finance for power-related projects are the European Bank for Reconstruction and Development (EBRD) and the European Investmeot bank, (EIB).

The EBRD signed up to provida nearly $240m for energy projects worth more than $870m last year alone. Bnt it balked at financtng the construction of new gas-fired plants in Ukraine to replace the Chernobyl nuclear reactors on the grounds that Ukraine did not need new generating capacity and there were better ways of spending the billions of dollars required.

The involvement of the EIB is likely to increase as more and more former communist states enter or prepare for entry to the enlarged European Unlon with its tough requirements for transparent energy pricing and emmission controls.

Energy sector lending to the region accounted for Ecu 363m ($425m), or roughly a third of the $1.3bn invested in the region by the EU's main long-term financing institution last year.

A typical EIB project is its $82m loan, guaranteed by a syndicate of 11 commercial banks, to upgrade boilers, steam turbines and transformers at the Vojany power plant in Slovakia.

Apart from financing rehabilitation and other power-related projects, the international institutions have argued strongly for the kind of market-related tariff, pricing and privatisation strategies required if the regions' power companies are to build up tbe financial reserves needed to fund the new investments which will become increasingly urgent in the early years of the next century.

Hungary has beeo the pace-setter in this regard with the privatisation of six power utility companies and two power plants in 1995 linked to a government commitment to raise tariffs sufficiently to ensure an 8 per cent return for foreign investors.

At the last minute, however, the government balked at the political opposition to the rate hikes required, angering foreign companies such as Belgium's Tractebel which reacted by putting on ice plans to invest over $40m in a new gas-fired power station in southern Hungary.

A credible new reformist government in Romania meanwhile has raised the profile of a large country with an appalling record of polluting and inefficient power plants, refineries and heavy engineering plants.

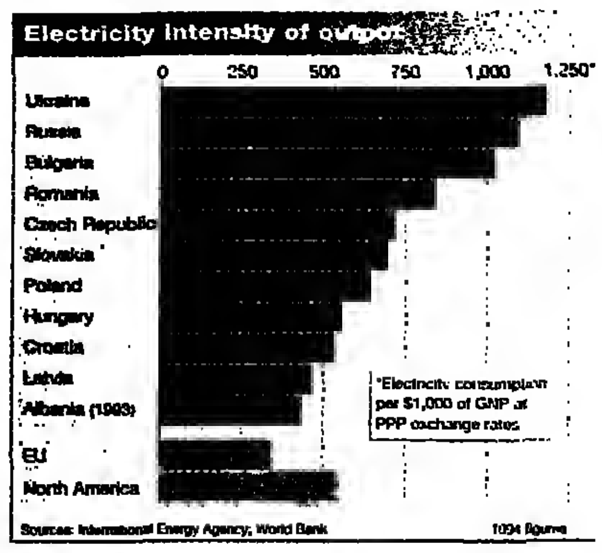
The World Bank and EBRD are providing loans for the government's power sector renovation programme. This plans to rehabilitate over 1,400mw of conventional thermal power generating capacity which is notoriously inefficient, mainly because of low quality coal and antiquated, poorly maintained power generating plant.

It is a similar story across broad swathes of Russia, Ukraine and ceotral Asia whicb are virtually black holes capable of absorbing vast amounts of capital investment and requiring a buge amount of new or reconditioned plant and equipment for as far ahead as anyone can see.

It is this prospect which has attracted the big western power generating companies, especially ABB, Siemens and other European producers. Westinghouse of the US is seeking a toe-hold in the nuclear power engineering area while other big US power corporations such as General Electric, whicb has a big consumer light bulb and related investment in Hungary's Tungsram, are still watching a market which is developing more slowly than companies such as ABB originally expected.

ABB, for example, now employs more than 19,000 people in dozens of plaots throughout the region. They produce relatively cheap components for ABB's global markets but their full potential will only be realised when the demand for power generating equipment really takes off in the central and east European and central Asian markets. Meanwhile, local power generating equipment companies, such as Poland's Elektrim, are busy expanding their export capacity in markets such as Turkey and Asia. Russiao power companies, such as Gazprom, are also teaming up with equipment makers.

Last year the Russian gas supplier teamed up with Skoda Pizen, the Czech engineering company and Lyulka Saturn, a Russian power engineering company, to produce gas-fuelled turbines. It followed this up with a co-operation agreement with Siemens to develop projects in power generation – and telecommunications.



Sources: International Energy Agency; World Bank 1994 figures

Hungary has been a regional pace-setter in pricing and privatisation strategies. Pictured here is a section of the control and monitoring centre at the nuclear power station at Paks

POLAND • by Christopher Bobinski in Warsaw

Kitted up and raring to go

At four-fifths capacity, Dolmel is vastly improved from 1990, but is pressing for more

Seven years after being taken over by ABB, few of the 600 employees at Dolmel, a plant prodncing power generating equipment in the Polish town of Wroclaw, appear to have any concerns about their skills, machinery and product.

"People come to our plant, saying we should see their facilities in western Europe, but once they've been shown around they recognise there's no need," says Mr Roman Bulinski, the Dolmel sales and marketing department manager. The aura of modernity which imbues the giant production hall where heavy generators are made has come at a cost of the $20m, which ABB has invested in the plant since 1990.

All this is, of course, as it should be. After all the air-cooled turbogenerators being produced at Dolmel carry the ABB stamp and have to come up to the engineering multinational's world quality standards. Dolmel is also the specialist in the ABB group for refits of 200MW generators and has sold technology developed in Wroclaw for expanding their capacity to 230MW back to the group.

ABB bought a controlling share in Dolmel in 1990, the year the company took control of Zamech in Elblag, a big engineering plant which makes steam and gas turbines. The moves were the first in a strategy which sees ABB controlling 16 companies employing about 7,000 people in Poland, mainly in the power generating equipment industry.

The bold foray by Mr Percy Barnevik, the then head of ABB, came as salvation for Dolmel. The plant, which had produced most of the country's generators in the post-war period, was working at 20 per cent capacity as power industry investments were run down.

Earlier it had bought licences such as the one for 360MW generators from Brown Boveri for installation at the country's giant Belchatow power station. But after 1989 Dolmel had little chance of access to new technologies, as western companies were no longer willing to sell licences to manufacturers they did not control.

"Our local market had collapsed, we faced the danger of losing export markets, we couldn't develop our product and we had run out of cash," is how Mr Bulinski describes Dolmel's plight in 1990.

The allure for ABB of taking a dominant position in Poland's power generating equipment industry was a large local power generating sector which would soon be needing refits and expansion. The Swiss Swedish engineering giant also saw Poland as a springboard to markets in what soon become the former Soviet Union.

That promise has not been fully realised, however, with the former Soviet Union's market still in the doldrums. Also spending in Poland on refitting the power generating industry in the first half of this decade was low. Only now is an estimated $2bn being spent annually on refits and new investments. This is set to grow to $3bn a year and more after 1999, according to government estimates.

This is the moment which Dolmel is waiting for, as are competitors for the local market such as US group Westinghouse, Germany's Siemens and Skoda from the Czech Republic.

Until now net profits have been relatively low at Dolmel, which can expect to earn up in 5 per cent of the cost of any power station investment programme with its generators. They have run at no more than $2m a year up to 1994, rising to $5m in 1995 and giving ABB little joy from the six-year tax holiday it was granted in 1990. Net profits did rise to $25m last year, but only thanks to an extraordinary profit earned when the company sold its valuable stake in Elektrim, a Warsaw Stock Exchange listed company.

Dolmal's revennes last year reached 210m zlotys, of which 20 per cent came from deliveries of new equipment to the local market and another 30 per cent from doing refits in local power stations. Half of the company's revenue was earned by delivering equipment for sale through ABB's world network.

Currently the factory is working at four-fifths capacity, which is vast improvement on the situation in 1990. But given that Dolmel's wage costs are lower than in western Europe and the quality is as good, the company is pressing for more orders to be placed in Wroclaw than in Mannheim in Germany, or Birr in Switzerland, where similar generators are made in the ABB group.

In spite of the aim of Mr Goran Lindahl, ABB's new head, to move production to emerging markets such as Poland, an observer notes that "Dolmel's supervisory board meetings see constant pressure from the local people fighting for their factory's interests".

At the same time Dolmel is beginning to look anxiously over its shoulder at investments which ABB might make in even lower-cost economies, such as Russia itself. Many of Dolmel's generators were prodnced under licence from Elektrosila, a generator producer in St Petersburg with which ABB is in contact. Were that company to be brought into the ABB group, Dolmel would find itself in the higher cost group with its partners in Birr and Mannheim.

4 POWER GENERATION EQUIPMENT

PROJECT FINANCE • by Simon Holberton

Advent of the merchant plant

A trend in the developed world is towards power stations that generate as the market demands

The development of independent power projects remains one of the biggest growth businesses. The scale of demand is astonishing and the mobilisation of private capital to finance that demand equally impressive.

Leading banking institutions – such as Chase Manhattan, JP Morgan and Barclays de Zoete Wedd – support large teams of professionals scouring the world for "bankable" power projects.

Figures compiled by Hagler Bailly, a consultant which tracks the power industry, show that solicitations for greenfield power projects totalled about 95GW (gigawatts) last year. That is equivalent to an electrical system one and a half times the size of Britain's.

It also represents a 50 per cent increase on the level of solicitations in 1995 and a nearly three times demand in 1994. Forecasts of demand may be open to question, but predicted demand seems to be underpinned by rapid construction of projects.

"In March 1992 we tallied only 178 projects initiatives with a total capacity to 87GW," Hagler Bailly says.

"We now count some 2,480 independent power initiatives in 101 countries outside the US and Canada, totalling 862GW. For 1996 alone, we observed an increase of 638 projects with 153GW – the equivalent of a 36 per cent jump in the number of projects and a 23 per cent increase in their associated capacity."

The main trend that bankers identify in the developed world is the advent of the merchant plant. This is a power station that has no secure long-term power purchase agreement (PPA) with a distributor but generates as the market demands.

It is necessarily a higher risk project than one backed by a long-term fuel supply agreement and a PPA of equivalent duration.

"The structural problems are fundamentally different from those of a back-to-back deal," says Mr Gareth Brett, co-head of structured finance for the power industry at BZW. "Merchant plants require a less aggressive capital structure. They need more equity up front so that debt service is less onerous."

Plants backed by PPAs and long-term fuel supply contracts might be financed 80:20 debt to equity, but lenders to merchant plants want to see the operator commit more capital. Bankers say this means a developer may have to contribute up to 40 per cent of the capital cost.

One leading-edge project – a £100m 230MW gas fired combined cycle station – is being built by AES, the big US generator, at Barry in Wales. IBJ, the big Japanese bank, is leading efforts to finance the project. While AES remains confident, it admits that some banks have not wanted to participate.

"It's going to take the banks time," saye Mr Charles Salter, an official with AES in London. "But we are battling against entrenched views." He notes that some banks want a totally riskless project. "When someone comes in and moves the market awey they don't like it," he says.

Mr Eddie Altenhoven, vice-president with JP Morgan's energy team in London, agrees. "The competitive pressures are such that banks will have to get comfortable with riskier projects."

This is because the power market is changing, he says. "The energy providers are getting involved in generation. We are seeing tolling plants being built where the risk is borne by the fuel provider. Energy companies will tell you they are comfortable with that risk," he says.

Another ground-breaking deal is on the drawing boards in Poland and it may prove to be the model for financings in the economically healthier parts of the former Soviet Union's empire. Enron, the US energy company, is asking for financial proposals from international banks to finance a 180MW gas fired combined heat power plant.

The gas feed stock for the plant comes from Gazprom, the giant Russian gas producer, and Enron is seeking 17-year finance on the basis of a 20-year PPA – and may get it.

"For the correctly structured project, such loans are not too wide of the mark," says a banker bidding for Enron's business. "But there are issues with the Polish deal sncb as who knows where Russia will be in 15 years."

Political uncertainty dogs the world of independent power projects. In the Indian sub-continent, recent developments have raise questions about the way in which the governments of Pakistan and India are epproaching the sector.

Recently an official of the Pakistan government qnestioned the PPA that the developers of the Hub power station had negotiated with a previous government. The issue blew over, but it left some bankers asking questions.

Mr Altenhoven of Morgan asks: "Are these tariffs being put in place politically sustainable over time? Electricity in particular is seen to be a useful way to buy votes. It is a political football."

Similarly, in India, the outlook for the sector is being qnestioned, especially the status of the government's so-called "fast track" projects, *(see report, page 2)*.

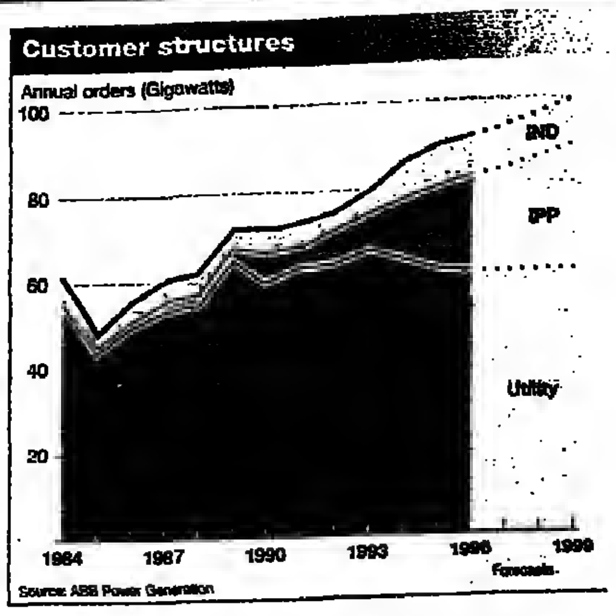
Mr Harry Philp, vice-president of Chase Manhattan's global power and environmental group, says there is an increasing trend in India for large industrial groups to build their own site-specific generation.

"A very interesting dynamic is developing," he says. "The best receivables are contracting dramatically."

International power project activity

Type of IP Project	S. America & Mexico	Africa & Mid-East	Europe	Asia	Total	% of total
Operating	*23,694*	*2,427*	*46,232*	*50,039*	*122,392*	*14*
Greenfield	4,705	776	23,503	27,422	56,406	7
Privatised	18,989	1,651	22,729	22,617	65,986	8
Under development	*83,847*	*62,303*	*76,784*	*516,340*	*739,273*	*86*
Greenfield	60,494	57,708	66,670	513,318	698,189	81
Bid Awards	2,570	4,794	1,873	57,415	66,652	8
Unsolicited/under development	8,744	1,869	14,518	73,347	98,477	11
Unsolicited/Preliminary	35,531	23,862	48,771	283,303	391,467	45
Bid responses pending	13,649	27,183	1,508	99,253	141,593	16
Privatisations	23,353	4,595	10,114	3,022	41,084	5
Under IP completion	7,508	1,386	2,871	2,040	13,805	2
Under Bidding	15,845	3,209	7,243	982	27,279	3
Total	*107,540*	*64,730*	*123,016*	*566,379*	*861,665*	*100*
% of total	*12*	*8*	*14*	*66*	*100*	

Source: Hagler Bailey Consulting, 1997



Source: ABB Power Generation

Top 20 markets: international power projects - demand by country

	Solicitations No. of projects	Solicitations Capacity (MW)	Privatisations No. of projects	Privatisations Capacity (MW)	Total demand No. of projects	Total demand Capacity (MW)
China	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	76,181
India	140	77,692	8	2,879	146	80,571
Brazil	[illegible]	[illegible]	[illegible]	[illegible]	96	35,412
Turkey	50	22,755	12	7,419	62	30,174
Pakistan	[illegible]	[illegible]	[illegible]	[illegible]	18	19,179
Thailand	20	15,970	0	0	20	15,870
Nigeria	[illegible]	[illegible]	[illegible]	[illegible]	2	11,290
Philippines	23	3,282	9	7,520	32	10,802
Argentina	[illegible]	[illegible]	[illegible]	[illegible]	11	9,429
Venezuela	0	0	7	8,496	7	8,496
Australia	[illegible]	[illegible]	[illegible]	[illegible]	12	[illegible]
Nepal	8	7,384	0	0	8	7,384
Vietnam	[illegible]	[illegible]	[illegible]	[illegible]	14	6,749
Colombia	13	2,632	8	3,441	21	6,073
Korea	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5,586
Indonesia	13	5,539	0	0	13	5,539
Singapore	[illegible]	[illegible]	[illegible]	[illegible]	1	4,800
Mexico	15	4,444	1	212	16	4,656
Taiwan	[illegible]	[illegible]	[illegible]	[illegible]	9	[illegible]
Armenia	2	1,600	1	2,500	3	4,100

Source: Hagler Bailly Consulting

LATIN AMERICA • by Frank Gray

Regional dash for gas

The 1,800-mile Bolivia-Brazil gas pipeline, costing $1.8bn, will be ready next year

The exploitation of Latin America's gas reserves, and the ability to pipe it long distances, is firing up investor enthusiasm for independent power projects in the region.

The emergence of Brazil as a customer for piped gas means that its overwhelming dependence on hydro-electric power – 90 per cent of all power in Brazil comes from hydro plants – will yield slightly as much new plant coming on line will be thermal powered, partly by coal but mainly by gas.

In Mexico, the second most populous country after Brazil in Latin America (total regional population: 450m), the hiving off of the gas sector from the monopolistic embrace of Petroleos de Mexico (Pemex) has also created an incentive for new gas-fired power station construction by the private sector.

In recent years, the biggest developments have been the GasAndes gas pipeline scheme, which will deliver gas from Argentina to Chile, followed by other schemes in which Brazilian gas will be piped to Brazil via Uruguay in the south and directly by a separate route in northern Argentina.

Long route

The biggest scheme of all is the Bolivia-Brazil gas pipeline project, a 1,800-mile (3,000 km) undertaking to cost $1.8bn. The project will lift gas from the Bolivian interior near Rio Grande and plpe it north of Paraguay intn south-western Brazil, across towards the coast where it will turn south, with a spur off to Sao Paulo and Rio de Janeiro and Belo Horizonte, with the main line running to the far south port city of Porto Alegre.

The project has many shareholders, including Petrobras of Brazil, British Gas, Enron Development of the US, BHP Petroleum of Australia and Tenneco of the US. The pipeline will be finished by December 1998, say Enron officials.

According to figures released at a recent London conference by the Centre for Global Energy Studies, Latin America's installed capacity should rise to 250,000 MW by 2010 from 140,000 MW in 1995.

Brazil's share is about one-third. Significantly, natural gas's share will rise to 17 per cent from 11 per cent at present while the role of hydropower will ease to 61 per cent from 67 per cent. The share of oil will also ease from 17 per cent to 15 per cent in the 15-year period, while that of coal will rise from just 3 per cent to 5 per cent.

While gas-fired generators are being solicited or signed up for the trans-Andes and Bolivia-Brazil pipeline, other countries have already recorded some unusuel deals.

One of these is the Aguaytia gas project in Peru, led by a six-company consortium headed by Maple Gas Corp. of Texas.

The deal, signed up last autumn, is described as South America's first integrated natural gas and power project, and is a $250m project to develop gas reserves in central Peru for electricity and hydrocarbon supplies to end-users. Chase Manhattan was lead financier for the project and helped raise $150m in equity funding and $100m in limited recourse debt.

The project calls for the development of the Aguaytia gas field in central Peru and the construction and operation of a 155 MW gas-fired power etation and gas-related facilities, as well as construction of a 430km transmission line to carry the power to the coast.

The power station will be located at the well site and the power will be delivered over the Andes via power lines to substations north of Lima.

It will eell electricity into the Peru spot market; as such, it is described es a 'merchant' plant, as opposed to the more traditional build, operate, transfer scheme, in which the end-user of the power is a specific customer paying an agreed tariff over 20 or so years.

Confidence

"Peru has no reserve capacity," says Mr Rex Canon, executive vice-president, Maple Gas. "We will be selling power at spot market prices, but we are confident about the deal because of the country's tremendous need for power and our own record as a low-cost supplier."

Proponents of gas-fired power generation are encouraged by the signing up – after long delay – of the Samalayuca II combined cycle gas-fired plant in northern Mexico.

The $647m deal is Mexico's first large privately-financed power project following legal reforms begun in 1992. The 700 MW scheme initially will be fuelled by natural gas from Texas.

Mexico's Federal Electricity Commission (CFE), the state monopoly that operates the national grid, initially granted a concession to establish and operate the plant in 1992 to a consortium of companies including General Electric, Bechtel Enterprises, El Paso Energy Curp. and Empresas ICA of Mexico, but the initial deal stalled because of Mexico's foreign exchange crisis in 1994. Under the deal, CFE will acquire ownership of the plant 20 years after operations begin. The plant is being held in trust for the sponsoring consortium by the Banco Nacional de Mexico.

Of all Latin America's leading countries, Mexico has been the most reluctant to yield to the concept of foreign ownership, hence the need to set up a trust. Construction is now under way and the plant will go on line towards the end of 1998.

The sponsors are providing $132m in equity financing, with GE Capital responsible for 40 per cent. El Paso Energy, Empresas ICA, and Intergen, a Bechtel, Pacific Gas & Electric venture, each having 20 per cent.

Financing of $515m is coming from such sources as Citibank, UBS, ABN Amro, Dresdner and the Inter-American Development Bank.


In Brazil, 90 per cent of all power comes from hydro plants. Pictured here is a section of the huge Tucurui hydro-electric project on the Tocantins River in the Amazon Basin

PROFILE: SIEMENS GROUP OF GERMANY • by Stefan Wagstyl

A strong faith in technology

It is not every electrical engineering company that has sufficient faith in technology in this day and age to mark its 150th anniversary with a celebration of nuclear power.

Bnt earlier this month, Siemens of Germany did exactly that. The group invited customers, suppliers and other guests to a celebratory conference marking 150 years of Siemens and 40 years of its nuclear power business.

Mr Heinrich von Pierer, the president and chief executive, told his andience that the only serious alternative to fossil fuels as an energy source was nuclear power. "Apart from hydro-electric power, nuclear power alooe is in a position to provide enormous amounts of electricity with minimal environmental impect and at competitive cost."

This faith in technology lies at the heart of Siemens. The company's 19th century founder, Werner Siemens, built Siemens around harnessing electrical energy. The group lost mnch of its assets in two world wars but had the self-confidence to recover after 1945. Unlike AEG and some other German rivals, Siemens has emerged from increasingly intense global competition as one of the world's leading electrical companies.

KWU, Siemens' power generation business wbich inclndes nuclear engineering, accounted for abont 11 per cent of the group's total turnover of DM88.8bn in the year to last September.

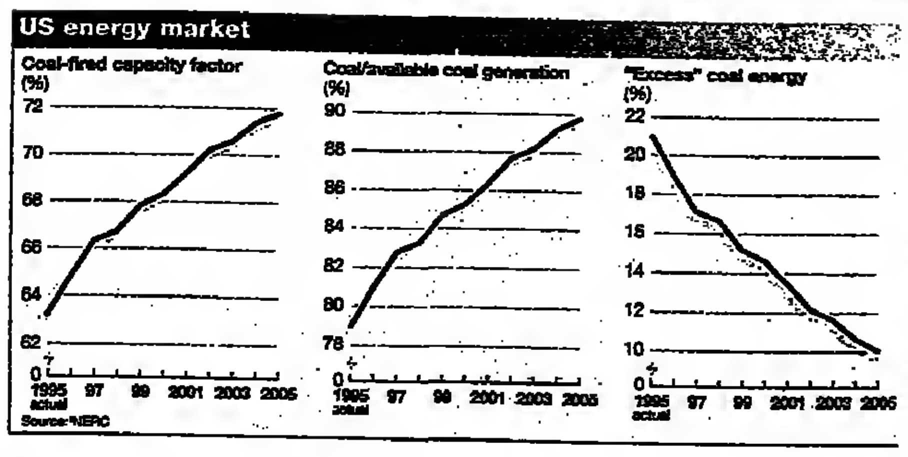
In the 1990s, KWU bas faced the same competitive pressures as competitors and cut cost, reducing the payroll by 6,000 to 19,500. Mr Adolf Hütti, the KWU president, says: "German labour costs are is still high because of the social costs. Reducing costs is a hard job. You heve to do it dey by day."

KWU's business bes become increasingly international, with non-German orders now accounting for abont 70 per cent of the total. It has developed components supplies overseas, notably in eastern Europe and east Asia. An engineering centre in Kuala Lumpur, established in 1994, co-ordinates east Asian project development. But KWU, like Siemens as a whole, is less geographically diversified in manufacturing than ABB, its Swiss-Swedish competitor, which has made a virtue out of decentralisation. Mr Hütti says: "Meintaining quality is not easy with global sourcing."

KWU has this year taken a modest step towards further geographical diversification with the £30m acquisition in the UK of Parsons Power Engineering Systems, a steam turbine manufacturer. Mr Hütti says the acquisition "will help us rednce production costs further because wage coets there are lower than in Germany". Parsons, which already makes components for Siemens, will not be "an overflow factory," adds Mr Hütti. "It will be a real split in production to optimise output."

But Parsons is too small to contribute much to making KWU a more international company. That would either require many more modest steps or a substantial acquisition, perhaps in the US.

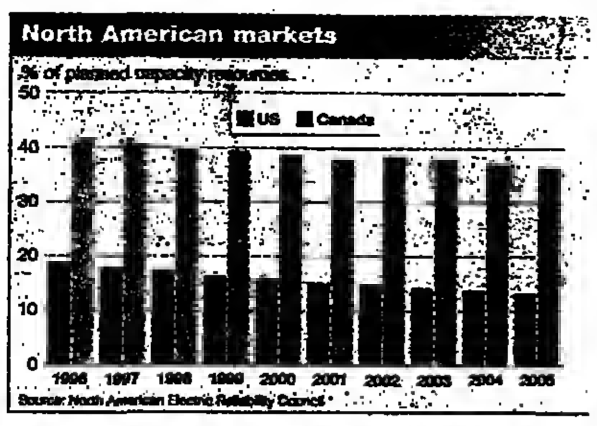
Some industry analysts says that Siemens could one day bid for Westinghouse Electric's power generation business and acquire a big north American generation equipment manufacturer at a stroke. But if Siemens has such a plan, it is not revealing it. Nor has Westinghouse, which is in the throes of a demerger of its broadcasting and industrial businesses, put the power operations up for sale.



US MARKET • by Bruce Clark

Deregulation debate rages on Capitol Hill

All utilities are being forced to accept the advent of free competition for retail business



The stockholders in America's old-style utilities, whose assets exceed $500bn and account for more than one quarter of the world's power generation capacity, have a recurring nightmare.

Under the most radical among a plethora of proposals currently on offer for deregulating the US electricity industry, they could find themselves barred from recovering some $135bn in past investments, especially in nuclear energy, that would be rendered unviable by free competition. They might then be forced, either by law or financial necessity, to auction off some generation assets into a rapidly falling market – exacerbating the capacity glut which already hangs over a sector with retail sales of $200bn a year.

Already, regulators in California and Massachusetts are ordering utilities to get rid of some of their assets. But in practice, the fate of the established utilities will probably not confirm their worst fears. Whatever the result of the debate over the pace, scope and terms of power deregulation that is raging on Capitol Hill, the interests of the traditional utilities, which were always considered a safe bet for conservative investors, are unlikely to be ignored.

Yet even a compromise will have far-reaching effects on US electricity generation. One intermediate solution was suggested recently by Mr Roger Hale, the chairman of LG&E Energy which is among the minority of power companies that supports rapid deregulation.

He said be would soften his opposition to stranded-cost recovery as part of the political price for free competition. But under his proposal, utilities would still be obliged to auction off their uneconomic assets to the highest bidder by January 2001. All utilities, including those who have grown up under close and heavily regulated relationships with state governments, are being forced to accept the advent of free competition for retail business in some form – and in tha short-term, combined-cycle gas turbines will be the main beneficiary.

Mr Thomas Lenard, an energy economist with the Progress and Freedom Foundation, believes the day could come soon when small supermarkets will hook up to their own miniature gas-turbine generator whenever utility-supplied power becomes too expensive.

With gas generators able to turn a profit at 3.5 cents per kilowatt hour, compared with retail prices ranging from 11 cents in New York state to about 4 cents in Idaho, Mr Lenard believes the gas pipeline network has become a real competitor of the power transmission grid, hitherto seen as a natural monopoly.

But both sides of the US electricity debate – pitting supporters of fast-track reform against advocates of caution – suggest there is some reason to expect a tightening in the electricity generation market in tha medium term.

Those who believe in rapid change have argued that it will stimulate the country's already buoyant rapid growth – potentially adding almost $200bn a year to the GDP in each of the next 10 years, according to a widely quoted, but controversial, study by the Citizens for a Sound Economy Foundation.

Differing viewpoints

Those who argue for a more cautious approach, letting individual states rather than Washington set the pace, believe there is a serious danger of power shortages, especially affecting rural consumers, as competition gathers pace.

The camp that wants early, wide-ranging deregulation includes a new breed of independent power marketers – and to an increasing extent power producers – who have are showing their faith in the future by buying up old plant and building new capacity.

"The wholesale market, selling power to utilities rather than end-users, is already almost half the size of the retail market and it is still growing fast," says Mr Robert Smock, publisher of Power Engineering magazine.

Calpine, a company based in San Jose, California, is the most active in a lengthening list of electricity "merchants" that are ordering extra generating capacity whose output they expect to sell on the free market without long-term contracts.

A 480 MW unit in northern California and a 240 MW facility in Pasadena, Texas, both gas-fired, have been ordered by Calpine in recent months as part of a plan to build up 10 merchant plants, with total capacity of 4300 MW, by the year 2003, supplying California, Texas and Arizona.

While gas-fired units are generating the greatest excitement among electricity producers at the moment, they will certainly not account for all the new capacity that is expected to come on stream early in the next century.

A long-range forecast by the Energy Department predicts that the US will need 1,063 new power plants totalling 319 GW by 2015 – with 51 per cent generated from coal and 28 per cent from gas.

The same forecast reckons that between now and 2015 utilities will spend $70bn on refurbishing utilities – 770 coal units, 172 gas units and 74 oil-fired ones. Much of this work will be done by new owners as plants change hands in a hectic round of mergers and divestitures related to the onset of competition.

But with an order rate of only 5GW year, it is easy to see why Cassandras are warning of a power shortages in some regions. At a recent conference organised by Cambridge Energy Research Associates, several speakers predicted that in a deregulated environment, it would become clear that the coal industry, which accounts for 55 per cent of US power production, has significant under-utilised capacity.

The opening up of the national grid could make it easier to generate power near coal mines and send it along the inter-state wires, rather than transport it by rail to distant utilities.

Even the hard-pressed nuclear industry, which now accounts for 22 per cent of US electricity output against 9 per cent for gas and 11 per cent for hydro-electric power, could have some pleasant surprises.

"Deregulation will have the most varied effects," says Mr Jim Pierobon, of the Washington-based consultancy Potomac Communications Group. "A struggling nuclear power station could find itself competitive once its costs have been recovered, while a well-run nuclear facility could be in trouble if it happens to be near a coal region."

JAPAN • by Gwen Robinson in Tokyo

Squeeze on suppliers

While electricity companies face pricing pressures, project cancellations and delays have hit the leading power-equipment makers

The most significant developments in Japan's power-generation industry in the past year stem from the government's recent push for deregulation, amid falling demand for new equipment. Growing pressure on leading electricity utilities to cut prices and streamline their operations bas combined with mounting criticism of the government's ambitious nuclear power-generation programme, following a string of nuclear-plant accidents in the last few years.

Japan currently derives nearly a third of its entire power requirements from about 51 commercial nuclear plants. The government planned to increase the proportion to more than 40 per cent by 2010, under a plan to steadily increase the number of commercial reactors. But public opposition to nuclear facilities has forced power utilities to postpone and even cancel some plans for new plants. Most recently, Kyushu Electric Power announced in early March the cancellation of plans to build a nuclear plant in Miyazaki, west Japan, due to strong local protests.

The cancellations and delays have hit the leading power-equipment suppliers, Toshiba, Mitsubishi Heavy Industries and Hitachi, who are now looking abroad to boost business, particularly in rapidly growing regional markets.

Revision

Competition between power-equipment suppliers for Japan's shrinking but still lucrative market escalated in 1996, with the entry of independent power producers to the wholesale electricity business. Their entry was triggered by revision of the electric power utility industry law in 1995, which paved the way for a new era of competition by enabling IPPs for the first time to generate and supply electricity to the "wholesale market," meaning the 10 regional power utilities rather than end-users, mainly through competitive bidding.

The revision also accompanied growing interest in alternative forms of power generation, including wind-power and solar energy, to supplement the main sources of nuclear, gas, oil, coal and hydro power.

The pressure on utilities companies intensified early this year when the minister of international trade and industry, Mr Shinji Sato, threatened to break up leading utilities into separate generation and transmission units, along UK lines, unless they cut prices by at least a fifth.

The threat was based on a government study of European power markets which found that industrial electricity in most European markets is 40 to 60 per cent cheaper than in Japan, while residential prices are 10 to 50 per cent cheaper.

Japan's leading power utility, Tokyo Electric Power Company (Tepco) took the first step in May by announcing it would lower basic charges next year. That was followed by Kyushu Electric Power, which shortly after announced a similar move. Other utilities are expected to follow suit, although the extent of the price cuts are not clear.

Interest rates

Other pressures on electric power utilities in the past year hava included higher interest rates, rising oil prices, a weaker yen, and abnormally mild temperatures in summer and winter, which sharply cut power consumption. Their growing cost-consciousness has significantly slowed the pace of replacing and upgrading plant – another blow for leading equipment suppliers.

"Capital expenditure has always been a function of peak demand, which is growing at an annual 2 or 2.5 per cent but which can also be quite volatile," says Mr Paul Smith at HSBC James Capel in Tokyo.

"At the same time, you have growing pricing pressure and difficulties establishing new plants, particularly nuclear plants. The utilities will cut their prices by 1998, which will further affect their traditional suppliers. Sourcing up to now has been fairly lax, with little competitive bidding and little overseas sourcing of parts. But that will certainly increase."

Traditional market leaders in supply of power-generation equipment and services are already feeling the squeeze. The three suppliers to the hitherto lucrative market for nuclear reactors, Toshiba, Hitachi and Mitsubishi Heavy Industries, have had some success in generating new business overseas.

Among regional countries offering cootracts to the leading Japanese power equipment suppliers are Taiwan and China, which are both interested in boosting nuclear power-generation facilities.

Recent overseas contracts, however, have offered prices of little more than one-third of those prevailing in the Japanese market. But Japanese suppliers have the edge in less-developed countries with generous export finance assistance from the government.

The profit, according to analysts, comes from lucrative after-sales service and maintenance arrangements. "Basically, we are having to work much harder and sacrifice short-term gains to make profits," says an official at one leading power equipment supplier.

The future for independent power producers, meanwhile, looks bright. While still tiny in terms of their proportion of total supply contracts, IPPs have revolutionised pricing and supply of equipment and materials for both power generation and transmission, and their market share is set to grow steadily.

Since early last year, average prices offered by successful bidders bave been nearly one-third lower than those commanded by the cosy oligopoly of leading Japanese materials and equipment suppliers. For the first time, these traditional market leaders faced mounting pressure to lower their prices in an increasingly competitive environment.

The IPP equipment market in Japan was valued at about $4.8bn in 1996, and can be expected to grow by at least 4 per cent annually over the next few years, according to a US government report on Japan's power generation equipment market.

The report noted that while the newly created market is very competitive, it should provide "significant opportunities for US manufacturers of equipment for several years to come."

So far, the biggest foreign IPP to announce plans to enter Japan is Enron, the world's leading natural-gas developer. The Texas-based company plans to generate power through a low-cost method of compressing and burning industrial waste and home refuse.

Enron set up a Japanese subsidiary this year to prepare for bidding at auctions held by Japanese utilities including Tokyo Electric Power Company (Tepco) in 1999. If successful, the US company will invest more than Y80bn to build plants in seven areas around Japan.

In the arena of equipment supplies, General Electric won an $800m order from Tepco last year for gas turbines. GE is now targeting Japan as a growth opportunity. Japanese companies, including Kawasaki Heavy Industries, Mitsui Engineering and Shipbuilding and Hitachi Zosen are also moving in on the domestic power equipment market.

INNOVATION: GNB Battery Technologies • by Gwen Robinson

Big demand for back-up power

One of the outstanding success stories in Japan's vast power generation industry is also one of the most unlikely. It is about a 100-per-cent foreign-owned company, using 100-per-cent imported products to capture nearly half the market share in a relatively neglected field of power supply in Japan: back-up power supplies.

Until January 1995, when an earthquake devastated the port city of Kobe, little attention was paid to the efficacy of the main source of emergency power supplies – large industrial batteries. The market was dominated by a few Japanese companies supplying mainly traditional acid batteries. But one newcomer, GNB Battery Technologies, was trying to break into the market with new, sealed valve-regulated lead acid batteries. But the assumption among the main customers for back-up batteries, including power utilities and telecom carriers, was thet the traditionally sturdy power sources would survive any earthquake.

The Kobe quake disproved that, destroying some of the thousands of industrial batteries intended to supply emergency power for the region's phone system. More than 250,000 phone lines were cut for almost 24 hours as a result. Ensuing investigations revealed thet Japanese-made acid batteries suffered the most damage, while every one of GNB's sealed batteries survived the quake.

In the aftermath, NTT, Japan's domestic telecoms giant, decided to replace its old-fashioned acid batteries with GNB's new products, imported direct from the US and Britain. The company had already shown considerable confidence in GNB batteries, installing them as the power back-up for the communications system in the Emperor's palace in central Tokyo, as well as the primary back-up for telecoms in the city's leading financial centre, Otemachi.

The company, which is owned by Australia's Pacific-Dunlop but headquartered in Atlanta, Georgia, has since surged ahead in Japan's market. According to Mr Shoichiro Oku, who heads GNB Battery in Japan, sales grew from almost zero in 1990, the company's first year of operation in Japan, to $20m in the current business year to June. For the next term, it expects 10 per cent sales growth and even more rapid expansion in the next decade.

Demand for back-up emergency power supplies is soaring amid growing reliance on sophisticated computer networks, Mr Oku says. Among GNB's leading clients are two of Japan's largest rail companies, West Japan Railways and Central Tokai Railways, which depend on GNB's batteries to back-up their huge computer networks running the "shinkansen" bullet trains. Others include the main carriers in Japan's recently-deregulated telecoms market, as well as the leading utilities such as Tokyo Electric Power and Kansai Electric Power.

However, competition is intensifying as leading Japanese manufacturers, including Japan Storage Battery, the country's largest maker of industrial and automotive batteries, develop new-generation sealed lead-acid batteries. Japan Storage last year began marketing a line of long-life sealed batteries with a 13-year duration.

But Mr Oku at GNB is confident that the company's foreign-made products will maintain their technological edge. "Basically, all businesses these days need stand-by and backup power. The competition is becoming very fierce, but GNB Battery Technologies is still the industry leader," he says.

FT ENERGY SURVEYS

Forthcoming energy-related surveys will include:

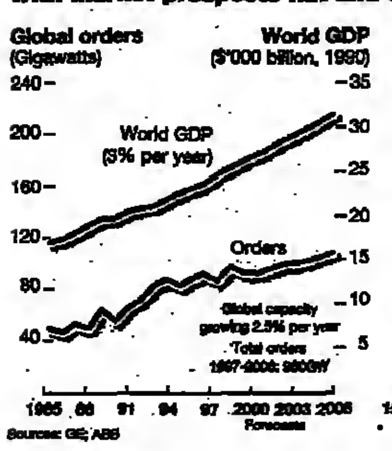
□ World Nuclear Industries, to be published on November 13, 1997.
□ Energy Efficiency, November 27.
□ US Electricity, December 9.
□ European Electricity, February 19, 1998.

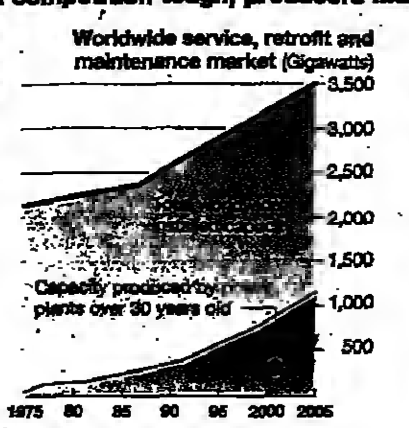
For details, contact Bill Castle at the Financial Times in London on +44 (0)171 873 4129, fax +44 (0)171 873 3062

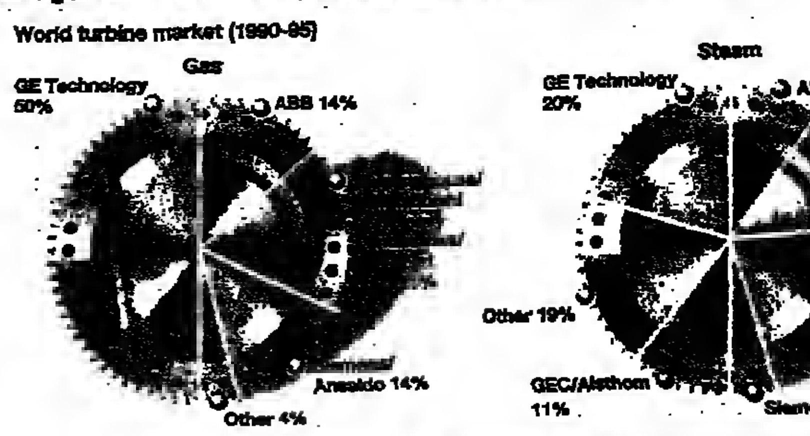
Pressures will force further consolidation

MARKET OUTLOOK

With market prospects flat and competition tough, producers must fight for orders. But opportunities in services are growing fast.







From page one:

aid-funded projects such as raising safety standards at nuclear installations.

In the developing world, there is no shortage of projects, particularly in Asia, which is expected to account for half world equipment orders for the next 10 years. The economic recovery in Latin America is also generating growing interest in the industry.

Altogether, detailed proposals exist for plants to generate at least 1,000,000MW of electricity – worth perhaps $1,000bn to equipment suppliers. But, finance is much harder to secure – whether for state-owned or private schemes. GE estimates that it takes an average of seven years to bring to fruition a private sector scheme in a developing country. As Mr Mark Axford, a senior executive of Stewart & Stevenson, a turnkey developer of small power plants using GE turbines, says: "Deals are a dime a dozen, but financeable deals are fewer."

In India, for example, the bureaucratic delays to the $2.5bn scheme put forward by Enron, the US energy group, for a gas-fired plant at Dhabol in Maharashtra state, have cast a long cloud of uncertainty. While Dhabol is now going ahead, other projects are snarled in red tape.

In Malaysia, Ekran, the company behind the controversial $5bn Bakun hydro-electric scheme, has struggled to finance the project. While government backing means Bakun is almost certain to go ahead, the project highlights the difficulties of financing such a large venture and shows why investors often prefer smaller schemes of up to $500m.

However, China is pressing ahead with the world's largest power scheme – the state-financed $30bn Three Gorges hydro-electric project on the Yangtze River, *(see report, page two)*.

The Chinese government is due to decide in the next few weeks on the award of first stage contracts – for 14 of the 26 generator units which will be required. Virtually every leading equipment supplier is among the bidders. Elsewhere, China is opening the industry to foreign capital and this year awarded its first contract for a foreign-owned power station – the $650m Laibin plant in Guanxi province to be built and operated by a consortium including GEC Alsthom. Nevertheless, even in China, capacity addition is falling behind growth in demand. Moreover, for equipment suppliers, Chinese orders often come at the price of transferring key technologies to Chinese partners.

China is one of the few sources of orders for nuclear plants. GEC Alsthom has built two and is now building two more in southern China. But the global outlook for reactor construction is grim. Only one order has been placed in the past year – with GE from Taiwan. Companies rely on service contracts to generate income to keep together nuclear engineering teams.

The pressures to compete in these markets are changing the equipment industry. Cosy ties between utilities and local suppliers are being replaced by global competition. Costs are being cut to levels which would have seemed impossible 10 years ago. For example, Westinghouse is closing a factory in Pensacola, Florida. ABB has cut jobs concentrating big turbine production at just two factories – Birr in Switzerland for gas and Mannheim in Germany for steam.

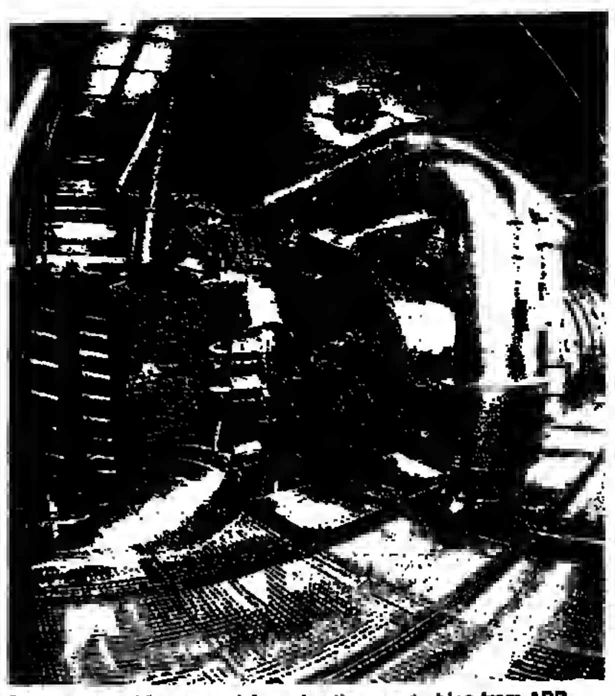
Trends

Groups are looking far afield for sources of low-cost components. ABB has been particularly active in building a decentralised manufacturing network, in contrast to rivals which remained more concentrated. But all scour the globe for outsourcing parts.

The consolidation which started in the late 1980s with the creation of ABB and of GEC Alsthom has continued with many smaller deals, including Rolls Royce's sale of Parsons to Siemens. Mr Armin Meyer, head of ABB's power generation business, says this consolidation will go further as smaller companies lack the global reach and economies of scale of the big integrated groups. "The big six are increasing their market share from 60 per cent towards 80 per cent."

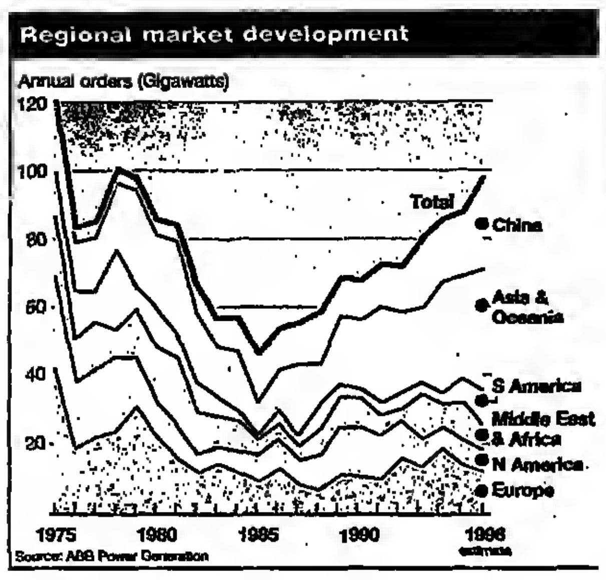
Smaller companies, such as Stewart & Stevenson, argue that there are important niches which big companies do not fill. Also, the pursuit of outsourcing of components by large groups is creating opportunities for smaller suppliers. The trouble for component makers in developed countries, including boilermakers and other significant manufacturers – is that low-cost parts' makers are increasingly to be found in the developing world. Moreover, many executives believe the industry's over-capacity will be solved only by further consolidation among big companies. Industry speculation centres on Westinghouse, which is splitting itself into two companies – one for broadcasting and the other for manufacturing, including power engineering. Westinghouse executives argue that demerger will create a tightly-focused manufacturing company, which is more committed than before to power engineering. But some rival companies believe demerger could lead to disposals.

The trials of the 1990s have put unprecedented commercial, technological and financial demands on the industry. Virtually every company has responded to the challenge by improving their performance to record levels. But not all will be rewarded for their efforts. A gap will almost certainly emerge between two or three market leaders and the rest.

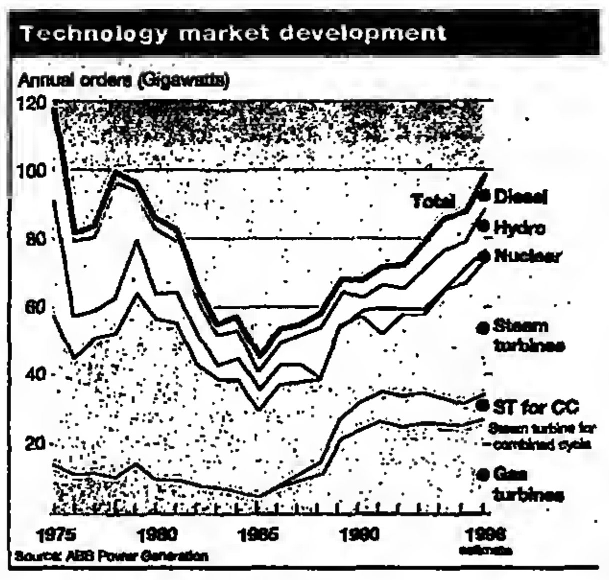


Power saver: this sequential combustion gas turbine from ABB raises net efficiency to nearly 58 per cent in combined cycle operations, with relatively low firing temperatures

Regional market development



Technology market development



SERVICING • by Stefan Wagstyl

A crucial role in raising revenues

Cost-conscious power producers are shopping around for high-quality services

Power engineers once looked down on servicing as the unglamorous end of the power generation equipment industry. Not any more.

The struggle to make profits from supplying new plant, combined with growing demand for sophisticated after-sales service, is transforming the industry.

Servicing now accounts for up to 55 per cent of revenues at leading equipment suppliers and an even higher proportion of profits. For those losing money on new equipment supplies, service income alone is keeping the business in the black.

Equipment makers are therefore investing heavily in developing service products, adapting them for the needs of utilities, and, increasingly independent power producers.

For example, General Electric has this year doubled its investment in services to $250m. As Mr Bob Nardelli, president and chief executive officer of GE Power Systems, told an industry conference this month: "Many think of service as product support or installation assistance or on-call maintenance or repair. Today, service has taken on new meaning as customers look to suppliers for innovative offerings and alternative methods for accomplishing missions they have historically done themselves."

At GE, service income accounted for more than half the power generation business's turnover of $7.26bn. GE has a big competitive advantsge in having the largest installed base of turbines of any producer. But others are moving in the same direction. Westinghouse Electric, with the second largest turbine fleet, also generated about 50 per cent of its $2.02bn turnover in power generation from services.

ABB says the share of service in its power generation turnover, could rise from 25-30 per cent of $9.69bn last year, to 40 per cent by the year 2000. "As the population of installed power stations gets older, this business will grow," says Mr Armin Meyer, director of ABB's power generation division.

GEC Alsthom has similar hopes. It plans to raise service turnover from 30 per cent of its $5.1bn total power generation revenue in the year to March 1995 to 50 per cent or 60 per cent of the total. "We hope to double service revenues," says Mr Michael Barrett, commercial director for power generation.

At Siemens, boosting service income is a key reason behind the planned £30m acquisition of Parsons Power Engineering System, the British-based steam generation business of Rolls Royce. Siemens wants access to Parsons' customers throughout the world and to use Parsons as a base for servicing its own UK clients. Mr Adolf Hüttl, president of KWU, Siemens' power generation division, says: "The role of services is growing and growing."

This growth is being driven mainly by electricity generators demanding higher levels of service, in response to commercial pressures and technological changes.

The main impetus comes from the liberalisation of the electricity industry and the development of independent power producers. This has gone furthest in the UK, but is beginning to develop in the US, the world's largest electricity market.

Before deregulation, state-owned utilities typically bought high-specification power equipment with a service life of 30 years or more and employed teams of in-house engineers to keep it running using parts from the original equipment supplier.

In today's increasingly-liberalised markets, new independent power producers and old-established utilities alike are becoming more cost-conscious. So they are shopping around for high-quality services. They are also placing a bigger emphasis than before on having their plants running with as little interruption as possible, as stoppages mean lost revenues.

Many generators have also cut in-house service teams, because they find it more economical to outsource such services.

Independent producers, which often have little prior experience of generation and are sometimes best regarded as financial investors, are relying more on plant suppliers than the traditional utilities. Plant suppliers are therefore having to develop long-term ties with operators, supplying technical expertise, especially in developing countries with littla indigenous know-how.

New computer networks monitor distant plants

With funds for new projects at a premium, there is an increasing need for raising the efficiency of existing plants by improved servicing. The world's population of power stations is ageing, particularly in north America and western Europe, where there is little incentive to add new generating capacity.

GE estimates that the average US plant runs at an energy efficiency rate of 33 per cent, meaning that only 33 per cent of the energy in the fuel is converted into electricity or by-product steam for heating systems.

Modernisation can raise this by up to quarter, or to about 40 per cent. This is still well short of the 58 per cent achieved in state-of-the-art gas turbines in combined cycle operations. But modernisation comes at a fraction of the cost of replacement.

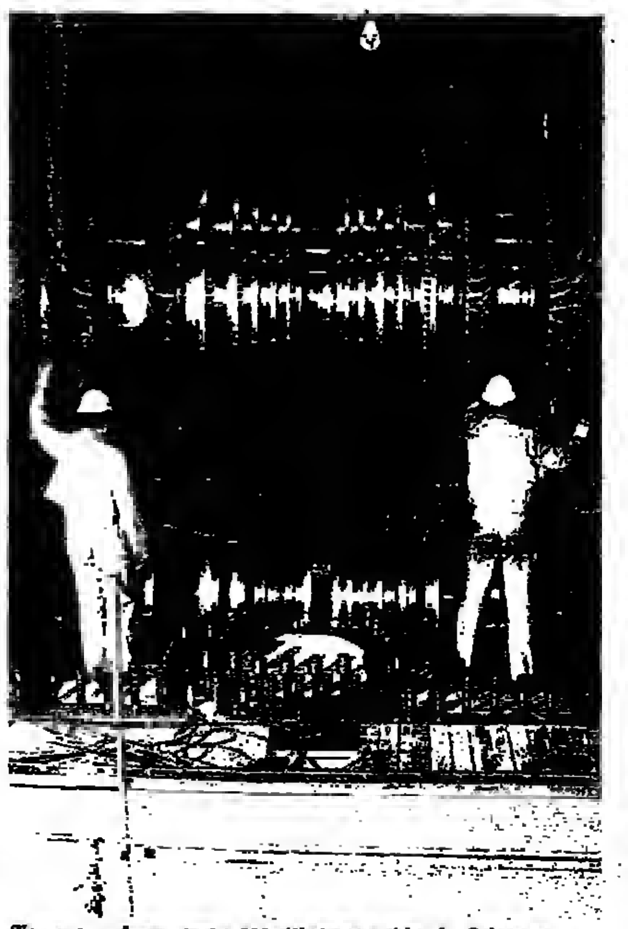
The rapid spread of computer-based technologies has made possible the development of increasingly sophisticated servicing packages. For example, service engineers are starting to constantly monitor equipment in action, to develop a continuous picture of a plant's technical strengtbs and weaknesses. Instead of waiting for a break-down, companies can carry out preventative work in advance. They can also time routine maintenance more accurately, varying the intervals for different plants.

Equipment suppliers are using computers to assemble performance information from different sites to build libraries of data which can be shared with clients. For example, the buyer of a turbine in Indonesia will be able to draw upon the experience of running similar machines in Germany or Japan or anywhere else.

Equipment suppliers are using long-distance monitoring to develop remote-control servicing. Specialist engineers in service centres use modern telecom links to gather data and transmit possible solutions to problems without ever visiting the power station.

Power plant suppliers first started to capitalise on these technological devalopments in tha late 1980s. But they have begun to develop rapidly only in the last two years. The US leads the way. Even though deregulation has yet to take full effect, the uncertainty it produces is persuading generating companies to postone big capital investments. So they are spending more on extracting maximum revenues from existing plant.

Small and large service companies reap the rewards of meeting these needs. However, the big companies have the upper-band in the long-term high-technology servicing agreements, where the highest margins are to ba found. Also, tbase big companies are willing to share the risks – signing deals under which some or all of their payment will depend on the actual performance of plants they are maintaining. Mr Meyer of ABB says: "We have strategic partnerships with customers where we share benefits and risks."



Siemens engineers test e 800mW steam turbine for Schwarze Pumpe Power Plant in Germany. Mr Adolf Hüttl, president of KWU, Siemens' power generation division, says: "The role of services is growing and growing."

MANAGEMENT CONSULTANCY

On many counts, the industry's faith in continued growth might seem well-founded. However, there is an alternative opinion which sounds a note of caution. **Tony Jackson** reports

Growth and revenues seem to be unstoppable

As an industry, management consultancy seems to have acquired an unstoppable momentum. Most of the big firms are still seeing their revenues rise by at least 20 per cent a year, and few expect this to change in the near future. Indeed, their one headache would be a source of envy in most other industries: the difficulty of obtaining enough good recruits to supply demand.

The sources of growth can be taken under three headings. First, corporations are handing over specific functions to consultants, lock, stock and barrel: their IT departments, their accounting, even some parts of their personnel management.

Second, many corporations are shifting their attention from efficiency and restructuring to growing their businesses again. As they do so, they find themselves out of practice in certain essential skills: strategy, product innovation or managing change throughout the organisation.

Third, the demand for consultancy is ever more global. On one hand, corporations in the emerging economies of east Asia or eastern Europe want to instruct themselves in western methods.

More important, western corporations are under immense pressure to globalise, and find that in some respects they lack the knowledge or manpower to do it.

How dependable is this growth in the longer run? That may vary with the individual parts. The outsourcing wave is part of a larger phenomenon: the continuous structural experiments being undertaken by corporations, largely under the influence of new technology.

Those experiments will certainly continue, in unpredictable ways. Consultants have been quick to grab some of the functions which big companies are shedding.

As the landscape changes further, they may not be the only ones working in it. The all-important area of information technology, for example, is shared with companies whose background is not in traditional consultancy at all, such as EDS.

Nor is much of the work strictly consultancy, however much some consultants benefit from it. If Andersen Consulting takes on the entire IT staff and equipment of a large corporation, they are no more its adviser than the haulage contractor which trucks its goods around.

The shift in corporate focus towards revenue growth, on the other hand, is the traditional stuff of consultancy. Mr John Lindquist, a London-based senior vice-president with the Boston Consulting Group, points out that it has a cyclical element.

Corporations focus on cost on the downside of the economic cycle, and on revenue on the upside.

But as Mr Lindquist also remarks, there is more to it. After years of cutting costs and increasing productivity, companies find that manufacturing is simply a less important part of their business. They are therefore thinking more about distribution and marketing; and the resulting focus on the customer leads naturally to a growth mentality.

Reid: 'You can't keep growing at these rates and still provide the same high-quality resource'

Whether companies have a growth capability is another matter. In some cases, they no longer have people who can spare the time to come up with or pursue ideas. In others, they find they have lost – or never had – a culture conducive to innovation, and need the help of consultants to instil it.

Not that this excludes cost-cutting as a source of business. Mr John Kelly, UK head of consulting at Ernst & Young, says that in the US, where the rhetorical shift to revenue growth is most marked, the reality is that most corporations are still working on cost control as well.

In Europe, similarly, rhetoric suggests that companies have yet to go through the painful phase of restructuring. But the reality, Mr Kelly says, is less black and white. "The aim is to have a balanced portfolio of change, which will have cost reduction in it, but also revenue enhancement. So you may be moving to shared services, but you will also be working on new product development and R & D productivity."

As for globalisation work, Mr John Lindquist says, there has been a distinct evolution in recent years. Around 1989, with the fall of communism, clients began to commission multi-regional studies instead of the old multi-country studies.

By the early 1990s, the emphasis had shifted to searching for specific markets and partners in the new regions, such as China or eastern Europe. The bigger companies then moved to the local operational level, with more in-depth studies of distribution chains and acquisitions.

As a result, Mr Lindquist says, many companies have made serious moves in those regions, involving serious money. In some cases, of course, those moves have started to go wrong. So the consultants are being called in again at the top level to help sort things out.

On all these counts, the industry's faith in continued growth might seem well-founded. The counter-view – or, at least, a note of caution – is expressed by Mr Alan Reid, president of the UK's Management Consultancies Association and international chairman of consulting at KPMG.

One must distinguish, he says, between activity and growth. The millennium computer time-bomb, for example, is a highly active market for consultants. It is hardly a long-term one.

"It's very important," he says, "to work out whether life is different from eight or nine years ago, when the industry was hit by recession after a period of very rapid growth. It's a bit like boom times in the property market, when a lot of young people come in with no experience of recession.

"Any fool can grow a consultancy quite fast just now. But when the downturn comes, the cost of redundancy can eat up much of the gains you got from the growth phase."

Not that he denies there are longer-term growth areas. In KPMG's case, a huge amount of business comes simply from helping install the operating systems produced by the German software house SAP.

"That's the liveliest thing that ever happened to the consulting industry. It's a very sophisticated system, very complicated to install, and you need consultants to do it. In our firm, we've gone from 700 to 1,200 staff worldwide doing that in the past year."

Extrapolate that, he says, and the demand for people with SAP skills is plainly enormous. "In consulting terms, that will probably last long enough to be a generation of products: say, seven years."

Other products, such as shared services or outsourcing, may turn out to be fads, or at best a swing of the management pendulum between centralisation and local autonomy. If so, some firms risk finding very large chunks of their business melting away.

And after all, as Mr Reid argues, most of the core services in consultancy do not change that much over the decades. They simply get called something else: and that, he argues, is the fault of the academics.

"When Tom Peters has done all the lectures and sold all the books he can, he needs to find another topic. But a lot of the basic features of the business don't change.

"Business process re-engineering, say, is just a continuation of time and motion studies, upgraded and made relevant for the particular time."

Having said all that, even Mr Reid does not see the consulting industry reverting to the size of five years ago.

"The fundamental behind quality growth, as opposed to an active market, is that companies can't afford to carry a lot of skills any more, and those with the skills won't get enough variety or exposure to best practice."

But he returns to the basic problem posed by the industry's current growth. "You can't keep growing at these rates", he says, "and still provide the same high-quality resource."

INNOVATION • by Tony Jackson

Time for some new ideas

Innovation may be a hot topic today but it may not always remain so

Ask a consultant on either side of the Atlantic what the hot topics are in the profession today, and before long *innovation will come up*. It will sometimes be bracketed with strategy, sometimes with change management.

The general thesis is the same: that after a decade of concentrating on efficiency, companies now find it hard to come up with new ideas to expand their business.

Consultants differ on why this should be so. Some point out that plenty of companies never have been good at innovation, while a few – the US manufacturer 3M being the most popular example – have always excelled at it.

Others stress the effects of downsizing. In some corporations, there is simply no spare capacity to generate and pursue ideas. The contrast is again drawn with 3M, where employees are instructed to devote 15 per cent of their time to thinking up new products or services.

Most consultants agree on a third reason: process re-engineering. The whole thrust of re-engineering is for companies to do better what they do already. It is backward-looking, relying on evidence and the measurement of processes.

For managers trained in this approach over the past decade, it is psychologically difficult to switch to contemplating the future..

There is some irony here. Process engineering was not invented by consultants – like most management theories, it came out of academia, in this case the Massachusetts Institute of Technology (MIT) – but it has provided a good living over the years for consulting firms such as CSC Index.

To that extent, the consulting profession is now offering to correct the defects in management thinking which it helped to create.

As applied by consultants today, innovation has at least two distinct meanings. For some, it is a matter of *top-down business strategy*. Which new businesses should your company be in? If you are a retailer, should you be in financial services? If you are a utility, should you be in telecoms?

For others, the main thrust is in processes. In any corporation, runs the argument, there are natural barriers to innovation. Senior executive are naturally uncomfortable with activities which look and feel different from what the company has done before.

Similarly, production workers, whose job is to focus on efficiency, are reluctant to help with products and processes which are novel, and thus initially disruptive. The problem, it is argued, rarely has to do with people coming up with ideas. It has to do with the natural tendency of corporations to kill them off before they reach the market.

Thus, processes must be set up within the corporation to gather and promote ideas. Senior managers must be charged with helping ideas survive through the organisation. Teams must be set up across the company, from research, manufacturing, sales and so forth, and taught to get on with each other. And innovation, like any other business target, must be systematically measured and rewarded.

Processes apart, one of the great attractions of innovation for the consulting profession is that it involves coaching executives in changing attitudes.

Many managers, for example, are still prey to the 'not-invented-here' syndrome. Faced with a good idea from outside the corporation, their first impulse will be to explain why it could not work in their own company. Or they will be reluctant to admit to ignorance on how exactly a new idea will pan out. Or the culture may be such that if the idea fails, its champion is blamed or ridiculed.

Similarly, innovation may involve conflict and argument, and the direct challenging of senior management. While this may be necessary, it can also be damaging, and needs professional handling.

One US consultant tells of his astonishment on first encountering this with a client in Silicon Valley. At a meeting to discuss a new project, he says, executives from the company were remarkably blunt with each other, accusing each other of lack of understanding or expertise. But the end of the meeting, all the latent objections had been thrashed out. Furthermore, when the executives left the room they were immediately back on friendly terms.

But if innovation and its associated techniques are hot topics today for the consulting industry, will they always remain so? Possibly not. There is nothing remotely new about strategic thinking or new product development. Companies used to know all about them: they have merely forgotten a certain amount in recent years.

The point about strategic innovation, after all, is that it was embraced all too enthusiastically a couple of decades ago. Companies hurled themselves into businesses they knew nothing about, then had painfully to learn the lesson of focus. Today's strategic innovation emphasises the taking of small incremental steps, rather than big risky ones. Once that lesson has been learnt, companies can do it for themselves.

Similarly, the development of new products and services was the lifeblood of companies in the faster-growing economies of a generation ago. From the mid-1980s, they became more preoccupied with processes – that is, with grasping the competitive efficiencies offered by new technologies.

Now this is changing again, companies will once again have to learn for themselves how to innovate. Most will doubtless do so. But there is a good living for consultants in the meantime.

CONSULTANTS AND THE IT REVOLUTION • by Dave Madden

Pervasive fact of business life

Consultants have had to come to terms with the fact that IT is now essential

Management consulting, often the catalyst of business transformation, has gone through a revolution of its own in the past few years.

It is not so long ago that there were two sorts of consultants: "real" management consultants giving business strategy advice to chief executives, and other consultants, grubbing about in the operational and technological undergrowth, doing projects.

Today, that demarcation no longer stands. Information technology, in particular, has become such a pervasive fact of business life that most business strategies are dependent on it. And not surprisingly, technology competency is now a pre-requisite of even the most rarefied strategic consultancy.

Mr Jan-Willem Broekhuysen, the new managing director of consultant A. T. Kearney in the UK, comments: "The idea that IT is lower-class work; that it is somehow less interesting, clearly underestimates the vast influence IT now has on our lives. So we've had to come to terms with the idea that to do strategic consulting without IT is a thing of the past."

Significantly, A. T. Kearney is now part of the vast US systems group EDS, and Mr Broekhuysen says that, in part, his firm took its decision to join EDS because of IT's omnipresence.

"IT is present in everything we do – in such a pervasive manner that we could not be outside that world."

Mr Brian O'Rorke, executive director of the Management Consultancies Association, detects the same convergence of interest. "It is now extremely difficult to say where business strategy and IT consulting ends and the other begins," he says. This is reflected in the MCA's membership which now includes the likes of EDS and the US services giant Computer Sciences Corporation (CSC).

"If you go back far enough, there was uproar in the profession when the chartered accountants came into consulting. People said they were not "proper" consultants. But they became the drivers of the industry. Now, history is repeating itself. The IBMs and EDSs have moved in and there is the same cry – that they're not proper consultants. But increasingly they are winning business against the traditional firms," he says.

One reason for this partial shift of power, says Mr O'Rorke, is simple economics. "Consulting is becoming a very expensive business. You need to invest heavily in R&D just to stay ahead of your clients, let alone your competitors."

That needs the sort of money that is more readily available in international companies than in partner-funded consultancies. But there are more profound reasons for this convergence, too – to do with the nature of businesses and the technologies available to them.

Mr Hugh Morris, senior technology partner at Andersen Consulting, describes a three-stage progression in this relationship of strategy and IT: from a time when business strategy and IT were deemed separate, through a stage where business strategy began to drive IT strategy and implementation, to a point today where business strategy and IT enjoy a symbiotic relationship.

A lot of IT was a solution in search of problem, he says, but now it is emerging as a catalyst of strategic vision. "Organisations really are asking: 'What will IT allow us to do?' In my view, there are only two sustainable forms of competitive advantage: capital and IT. Capital favours market incumbents, but IT favours new entrants.

"You could wake up and decide to go into retail banking tomorrow and exploit the new technologies to bypass the existing infrastructures completely."

Everyone takes some form of holistic view now: the integration of strategy, technology, process and people in the performing business. But, Mr Morris argues, IT has a special place in the equation, because the risks and costs, the opportunities and constraints, associated with IT remain potentially far greater. And IT tends to be the "trigger; the spark, to doing things in very different ways".

Mr David Boyd, a partner at KPMG Management Consulting, supports this analysis broadly. He runs KPMG's package software implementation group and observes that while it started out implementing discrete functional packages, its customers now demand enterprise-wide, fully integrated software.

"IT strategy and business strategy are now very closely coupled. There is a clear need to understand what IT can enable," Mr Boyd says. And this is becoming even more crucial as conventional business functions are replaced with new processes.

"People are becoming responsible for overall processes. I have a client who's just appointed an 'end-to-end' director of customer satisfaction," he says. That level of integration is greatly dependent on technology. What is more, the emerging technologies – the internet and other complex networks, for example – imply even more radical shifts in business processes – and offer new strategies.

"A lot of business processes we recognise today will remain, but the boundaries of who performs them will move – some will shift to other organisations, some to customers, some to suppliers," Mr Boyd says.

Mr Morris suggests that "the world is moving rapidly to electronic commerce where technology is removing constraints of time, place and form." (Interestingly, a recent survey by KPMG reveals that the UK's top companies expect almost one in five of their sales to come directly via the internet in five years' time – from none today.)


Broekhuysen: in part, his firm decided to join EDS because of IT's omnipresence

Mr Broekhuysen describes this as a process of convergence. "Technology convergence is the enabler. It provides for process convergence, which in turn will enable industrial convergence."

So as Mr Laurence West, a partner at Ernst & Young Management Consulting Services remarks, because IT is so pervasive – because it is the only way to get superior service to customers quickly or distinctively – then it is axiomatic that management consultants must be competent in the field, or at least create the illusion of competence.

But, he adds, it also presents consulting firms with an old dilemma. If consultants are to offer more than advice, and there is a view among clients that "if you don't play the game you can't make the rules", then how can they retain professional independence.

Ernst & Young's solutions is to eschew large-scale IT implementation. For example, it uses an Indian software house to "cut code", but has no exclusive ties, and currently it is acting as project manager of an implementation by Andersen Consulting.

"But," says Mr West, "it does mean that some jobs are off-limits to us."

MANAGING FOR SHAREHOLDER VALUE • by Tony Jackson

Rank heresy to an older generation

The principle requires managers to accept that the stock market knows best

Although managing for shareholder value is hardly a new concept, it is certainly a fashionable one. From its origins in the US, it has swept through the UK to continental Europe. The message is the same everywhere. The stock market is the final arbiter of value. What is good for the market is good for the corporation.

To an older generation of managers, this is rank heresy. Many in Europe – and some in the UK – would still argue that portfolio investors are badly informed and short-term in outlook. If the corporation is creating long-term value and investors do not understand the fact, so much the worse for them.

This is where the consultancy profession comes in. In some cases, boards of directors need help in grasping the principle of shareholder value in the first place. In almost every case thereafter, they need help in explaining it to the rest of the organisation and creating structures to deliver it.

Broadly speaking, consultants in this area can be divided into two classes. First come the specialists, with their own proprietary definition of what constitutes shareholder value. The best known of these is the New York-based firm of Stern Stewart, whose system of EVA (economic value added) re-jigs the company's accounts to establish whether the return on investment exceeds the true cost of capital.

Then come the general consultancies, such as Price Waterhouse or Ernst & Young, which begin with the more empirical market-based measure of total shareholder return (TSR). This is defined as the value delivered over a given period – say, three to five years – through the combination of dividends and share price.

The two sides spend a good deal of time sniping at each other, in sometimes esoteric detail. From the client's perspective, though, they have much in common. Both aim to extend the principle of shareholder value, as reflected in the share price, down through the operating companies. Both aim to create a system of incentives for managers tied to their success in value creation.

One firm, the Boston Consulting Group, finds itself in both camps. Its mainstream consultancy follows the TSR route. It also owns Holt, a Chicago-based exponent of cash flow return on investment (CFROI), which is in principle close to EVA.

According to Mr Neil Monnery of BSG, companies need both. From day to day, they have to work on the basis of return on assets or capital invested, on the assumption that stock market performance will follow.

Also, he argues, the corporation's TSR is a somewhat distant goal for the average line manager. He or she needs to be tied into it through specific processes such as planning, budgeting and incentive programmes.

Not everyone would accept this attempt at reconciliation. The trouble with the EVA approach, says Mr Jim Eales of Ernst & Young, is that it is ultimately based on the balance sheet, however modified.

It therefore omits assets which cannot be prudently recognised, such as intellectual capital, brands or other intangibles. Equally, it is not obliged to show tangible assets at their commercial value. Thus, it fails to capture the extent to which managers are securing an adequate return on the business entrusted to them.

The exponents of EVA would argue the converse. All that matters is the cash that shareholders are putting into managers' hands. If the return on that money exceeds the opportunity cost to the shareholders of putting it elsewhere, the share price will rise accordingly.

In either case, the scope for consultancy is clear. Directors must learn how to work out what pleases the stock market at the corporate level, then dissect that in terms of individual businesses. They must also work out ways to measure the performance of individuals and compensate them accordingly.

For exponents of TSR, in working for multinationals especially, this involves benchmarking in stock markets around the world.

What kind of activity commands a high multiple?

Having benchmarked the competition, how can corporations work backwards to ensure their own local operations command the same rating?

The answer to these questions lies in execution. Above all, managers must be supplied with simple and workable yardsticks by which they can measure performance. None of the methods offered by the consulting profession is intellectually irreproachable. The question is whether they make sense to those who have to implement them.

From the profession's viewpoint, one central issue remains. The principle of shareholder value requires managers to accept that the stock market knows better than they do. In recent years, they have been helped to do so by a historically exceptional rate of rise in share prices.

At some point, the markets will revert to trend. Managers may then find shareholder value being subtracted by falling share prices, whatever their efforts to the contrary. If so, management consultants will find that here, too, the compelling nature of their arguments does not exempt them from the cycle.

HOW CONSULTANTS GET PAID • by Richard Donkin

Brave new world of fees

Scale and sophistication appear to go hand in hand with pricing

Andersen Consulting's £45m contract to design and run a new national insurance system for the UK represents the brave new world of management consultancy fee arrangements.

In what even Andersen would admit was a bold initiative, it undercut rival bids by removing the £100m system development costs and profit margins from the final bill in the belief that it could profit from the value it could take out of the development programme and capitalise upon it elsewhere.

The bid was not without risk and Andersen's had to take delay penalties during the system's development phases. While it is still too early to judge whether the final outcome will leave Andersen in profit, the deal exemplifies the more sophisticated tendering arrangements that are emerging for some of the largest, often public sector, consultancy projects.

"In the old days, management consultancy was very much considered a profession. Now it's considered an industry because the services it needs to provide to a client are much broader than a personal service can offer," said Mr Brian O'Rorke, director of the Management Consultancies Association.

Scale and sophistication appear to go hand in hand with pricing arrangements. While the traditional fee per hour or day payments system still prevails across the sector, many of the big consultants now offer a variety of fee arrangements often depending on the requirements of the job.

While consultancies such as McKinsey retain the traditional client relationship, some are moving into the partnership area where the consultant runs an entire department for an established period and ties its fee to the results.

EDS, the US computer services company, for example, has entered into what it describes as a "co-sourcing" arrangement with Rolls-Royce in the UK. The contract, worth about £1.4bn, to manage Rolls-Royce's information technology over 10 years, is tied partly to stock turnover targets for machine parts.


O'Rorke: 'In the old days, management consultancy was considered a profession. Now it's considered an industry'

A trend towards performance-based contracts – where the consultant receives a percentage of the profits generated by the project – has been particularly noticeable among big state and federal government contracts in the US.

A $5.2m contract awarded to American Management Systems to re-engineer tax collection and administration for the California Franchise Tax Board, completed in 1996, generated incremental tax revenues of $36m within the first 10 months of operation, paying for itself seven-fold. A research report carried out by the Gartner Group forecasts that by the year 2000, about half of large-scale US systems integration projects that use external providers will be performance-based procurements.

While several fee permutations exist in management consultancy it is possible to boil them down to about six methods:

- fixed-price – agreed with the potential client, including price per hour or day. This is the normal method of billing where a project can be clearly defined. Potential clients should check whether the fee is also inclusive of expenses.
- mixed pricing – this happens where the project is more difficult to define. A client may pay a daily rate until the project becomes clear when it can then be billed at a fixed price.
- Fee-based with bonus or penalty clause.

This sets a time target for the consultant. If the date is missed the job may be completed at a lower rate. Bonuses for completing ahead of schedule tend to be much more rare than penalties.

- Performance-based contracts – these work like a contingency payment where the outcome is measurable and the consultant is paid on the basis of a formula attached to the profits generated or cost savings achieved by the consultancy work.
- Outsourcing contract, where the fee is tied to costs per transaction – such as processing health care claims.
- Partnership – where the consultant works with a client, sharing the risk and rewards in terms of future royalties or sales of whatever system has been developed.

Many firms are cagey about their pricing, partly because rates tend to differ depending on size, length and complexity and the seniority or reputation of the individual consultant.

The 1997 management consultancy fee rate survey* carried out by Anne Mallach who runs the Management Consultancy Information Service found that fees in the UK had risen on average by 17 per cent in the past two years.

The survey of 95 management consultants, ranging from sole practitioners to large international practices operating across the UK, found fees ranging between £200 and £3,000 a day, although the majority of consultants were charging between £650 and £1,150 a day.

Fees are climbing again after a period of stagnation, between 1991 and 1995. The average daily rate is now £875.

The survey found that size and geographical location were the most significant factors determining fees. Fees in London and the South East markedly higher than elsewhere in the UK. Seniority and background of the individual consultant are also factors.

The survey gives some insight into the billing practices of consultants. Most recruitment consultants, for example, charge a percentage fee of the annual salary for the job rather than a daily rate. Among search consultants this usually amounts to between 30 to 35 per cent of the salary.

Some 88 per cent of the consultants surveyed charged fees plus expenses with the remaining 12 per cent including expenses.

Some 35 per cent of the consultants quoted fees per day or week, while 37 per cent of them quoted per project and 28 per cent quoted either or both, depending on the project.

The majority of those surveyed – 67 per cent – bill clients monthly. Smaller numbers bill at different intervals, either fortnightly, weekly or quarterly. Some bill in project stages and some bill on completion.

The threat of default, however, has led some consultants to demand a payment up front, said Ms Mallach. This is less likely to happen where a strong client relationship already exists.

**Management Consultancy Fee Rate Survey 1997, MCIS, 38 Blenheim Avenue, Gants Hill, Ilford, Essex IG2 6JQ, price £27.50.*

IV MANAGEMENT CONSULTANCY

OUTSOURCING • by Nicholas Timmins

A £130m loss leader

Andersen Consulting cut its bid by £100m to win the Nirs2 project

Thera is management consulting and management consulting. In the case of Andarsen Consulting it takes the widest possible definition – everything from external assessment and advice, what might be dubbed the most traditional and conservative form of consulting, through to implementation and delivery and on to actual operations.

Over the past two years, Andersen has taken a not inconsiderable risk – taking on, as s loss leader, the design, finance and operation of a new £130m national insurance recording system for the Department of Social Security (DSS).

It is almost certainly the biggest single computing operation in the UK. Nirs2, as the system is known, holds 65m records covering every adult in the country and many that are dead. Of these, 29m are updated annually with one million new records created each year.

It is crucial to the operation of pensions, a string of other benefits, and employers' and employees' ability to deduct the correct amount of national insurance contributions in weekly and monthly paypackets. It is also the first, and may well prove to be the only, IT system to be handled under the private finance initiative.

Andersen'a won the contract in competition against CSC Computer Sciences and EDS/Sema in a deal which this month the National Audit Office – with the proviso that a final judgment can only be made when the system is fully up and running – described as "strikingly good value for money" for the taxpayer.

That judgment is in part based on the fact that Andersen's final £45m bid to run the project on a seven-year extendable contract was about a third of the bids of £125m and £146m which its rivals entered: each of them far cheaper than the government's original estimate of tackling the job in-house.

The reason, according to Mr Ian Watmore, Andersen's partner responsible for government practice, was that tha firm decided to treat Nirs2 as "an investment" – although one which to date has not proved cheap. Because the deal was done under the PFI, Andersen was able, in a way not possible with conventional contracting, to own the intellectual property rights, tha software and the technology infrastructure it created for the project: an asset Andersen reckons it will be able to sell at home and abroad.

The ability to handle some 65m records – one that not even banks or utilities routinely require – means that Andersen Consulting has a system which would cope with most countries in the developed world and most big states in the US, Mr Watmore says.

Obvious targets for future business, using the skills acquired, include overseas governments, other parts of a UK benefits system which is about to undergo another radical transformation, perhaps a new National Health Service index, and work for banks, ntilities and other large-scale processors of consumer data both in the UK and overseas.

Essentially, what Andersen'a did, Mr Watmore says, was "put a value on all of that and decide to take about a £100m cut on our bid on the basis that proving that we can design and run this system will provide us with future business. We will have a world class reference site to demonstrata what we can deliver."

Under the deal, Andersen is not paid a penny until the system is fully up and running. On top of its original investment, delays in getting the project completed have cost Andersen £23m in lost revenue, extra costs and compensation to the Contributions Agency as a deadline for final phase delivery originally set for February this year had to be moved to April next.

"We were able to take the decision to re-phase the project, knowing it would cost us some money, because we are in this for the long haul, and because we need this to be a successful project," Mr Watmore says.

It is all a far cry from earlier social security projects, notably the Operational Strategy of the 1980s – what was then dubbed the biggest civil computerisation project in Europe, aimed at automating in pieces most of the rest of the state benefit system. Andersens worked on that too – as did, to varying degrees, CSC, EDS and Sema, providing each of them with an understanding of the social security system which, at least to some degree, informed their bids for the very different approach needed for Nirs2.

Handled under conventional finance, the Operational Strategy was, however, a very different process. Essentially the DSS ran the project, aided by its advisers and suppliers. Perhaps 10 to 20 per cent of the project teams computerising various parts of the benefit aystem were Andersen's people, the rest the department's. This tima, under PFI, it was virtually the other way about: Andersen designing, financing, and now operating the system and buying some expertise in from the department. Andersen owns the IT infrastructure – and, despite the word "consulting" in the firm's title, is delivering the day-to-day operation.

Andersen has always ridden through the spectrum from advice to operations – an approach which others in the business have tended to emulate in recent years, usually by acquisition.

How far that continues under the driver of the private finance initiative – an approach to which the Labour government is committed and which is attracting ever more attention abroad – remains to be seen. With the demand for operation as well as design and finance, it may encourage other consultancies to broaden their spectrum of activity, Mr Watmore says.

He believes it is at least as likely that a few dominant firms will become the prime contractors for such deals, but that they in turn, in order to win the contracts, will form alliances with smaller and emerging operators, and with companies with niche expertise – their business lying with the big firms rather than direct with government departments.

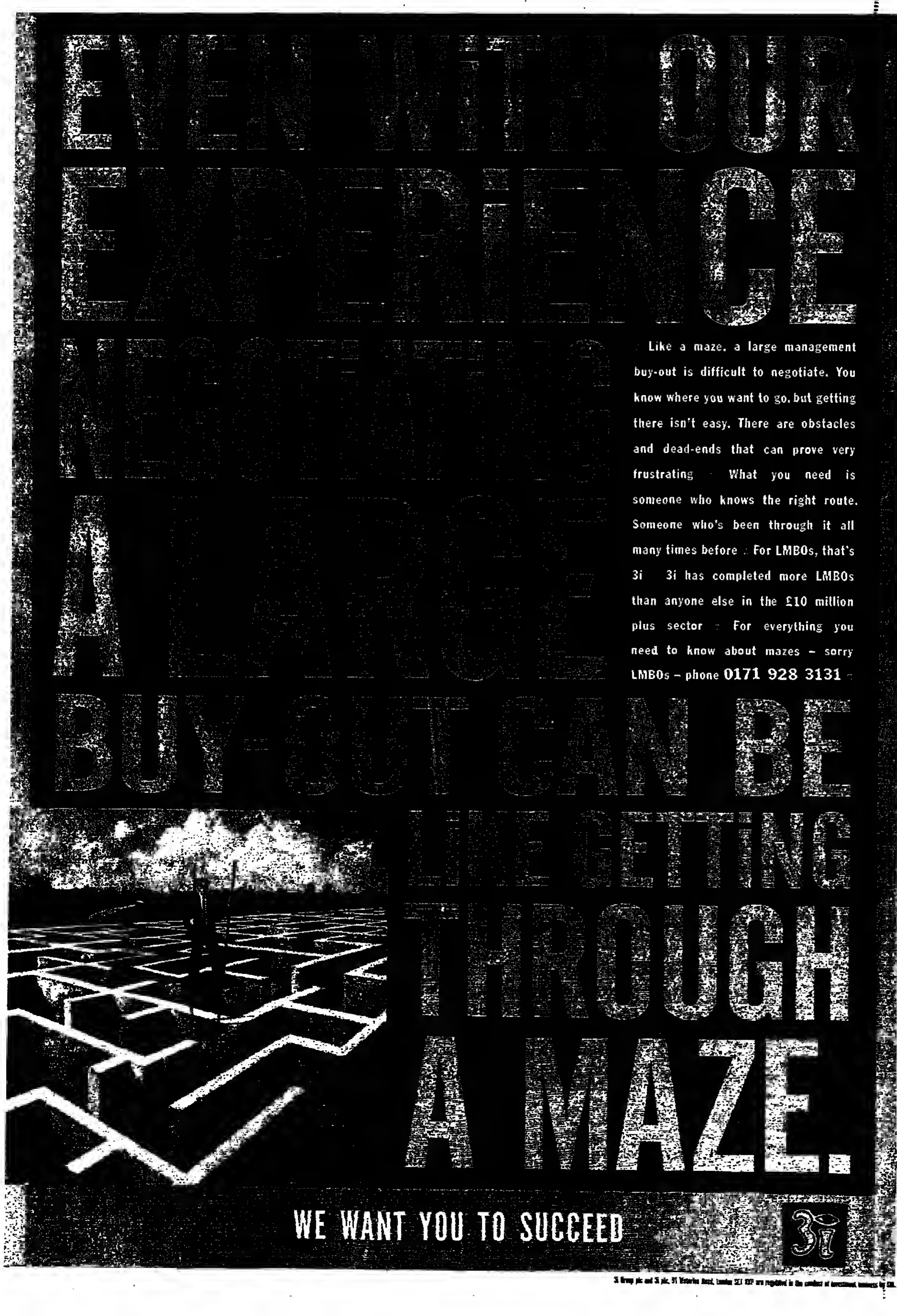
Consulting looks set still to embrace a remarkable range of activities.

World's largest consulting firms ranked by revenues

	Revenues ($m) 1996	Revenues ($m) 1995	Growth rate %	Effective date	Staff numbers: Consultants	Staff numbers: Partners[1]	Staff numbers: Total	1996 Revenue per consultant $
Andersen Consulting	6,300.0	4,224.0	[illegible]	[illegible]	[illegible]	[illegible]	44,801	141,752
Ernst & Young	2,010.4	1,523.0	32.0	Sep 96	10,657	n/a	n/a	188,646
McKinsey & Co	2,000.0	1,800.0	[illegible]	[illegible]	[illegible]	[illegible]	7,527	500,751
KPMG	1,836.0[2]	1,544.0[2]	18.9	Sep 96	10,673	888	11,888	172,023
Deloitte Touche Tohmatsu International	1,550.0	1,200.0	[illegible]	[illegible]	[illegible]	n/a	10,600	n/a
Coopers & Lybrand	1,422.0	1,221.0	16.5	Sep 96	8,511	584	10,298	167,078
Arthur Andersen	1,379.6	1,160.5	[illegible]	[illegible]	[illegible]	n/a	n/a	n/a
Price Waterhouse	1,200.0	964.0	24.5	Jun 96	8,900	470	10,300	134,831
Mercer Consulting Group	1,158.2	1,056.4	[illegible]	[illegible]	[illegible]	n/a	9,241	n/a
Towers Perrin	1,001.3	867.9	15.4	Dec 96	6,500	635	6,886	154,046
[illegible]	980.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5,000	184,906
AT Kearney	870.0	650.0	33.8	[illegible]	[illegible]	200	3,600	378,261
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	n/a	189,879[3]
American Management Systems	812.2	632.4[4]	28.4	Dec 96	6,042	n/a	6,800	134,426
[illegible]	656.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,800	175,871
The Boston Consulting Group	600.0	550.0	9.1	Dec 96	[illegible]	n/a	n/a	387,097
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,700	500,000[3]
Hewitt Associates	568.0	449.0	26.5	Sep 96	[illegible]	n/a	5,500	n/a
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,800	340,295[3]
Aon Consulting[5]	490.0	460.0	6.5	Dec 96	2,700	n/a	4,400	181,481

Notes: 1 Or partner equivalents 2 Gross fee income 3 Estimated by MCI 4 AMS restated its 1995 revenues due to a change in accounting principles 5 Represents the combined revenue of Aon Consulting and Alexander Consulting

Source: Management Consultant International. This information is an extract from the 1997 World Survey from Management Consultant International, a monthly newsletter published by Lafferty Publications, providing a mix of news, features, surveys and analysis on the consulting industry worldwide. The full survey is available for £100 from Gerard Reilly, International Customer Services Tel +353-1-6718022 Fax +353-1-6718520



SHARED SERVICES • by Tony Jackson

Simple idea can be tricky to execute

Whether or not shared services succeed, there will always be a consultantcy role

Shared services are a lucrative field for consultants these days. The concept is simple enough: that within a corporation, certain functions such as payroll or accounts receivable are taken away from subsidiaries and entrusted to a service centre. By cutting out duplication – and in some cases achieving economies of scale – this reduces costs.

But if the concept is simple, execution can be tricky. Increasingly, for example, multinationals are setting up shared services on a pan-European basis. This means reconciling different tax codes and legal systems, in different languages. Given the high cost of failure, it makes sense to turn to a consultant with previous experience.

According to Mr David Powell of Ernst & Young, his firm now has clients in shared services who have never used coneultants before. Partly, he says, this is because of the novelty and scale of the operation. But it also relates to its cost, in the form of redundancy and other payments.

"We've known companies which have tried to do it on their own," Mr Powell says. "They've gone to all the conferences and seminars, and then just wallowed around for two years. But you need to recover your costs in that time. And given there will always be internal resistance to shared services, it needs to be seen to be working from day one."

To date, most service centres have processed financial transactions. The principle is being extended to some human resource functions, and may take in aspects of sales administration, such as order processing and customer service, or legal and tax services. The main users, according to Mr Powell, are US multinationals, especially manufacturers. "What we expect", he says, "is more European multinationals to take it up, and more service companies, in financial services especially. It hasn't run its course yet."

It could be argued that shared eervices exemplify the pendulum principle of management. In any large corporation, there is a natural tension between centralisation and local autonomy. It is not so long since some companies freed themselves from the tyranny of the central purchasing department, which supplied the wrong kind of office chairs or paper clips for everyone at the cheapest possible price.

Mr Alan Reid of the Management Consultancies Association, says: "It's possible that shared services could turn out to be just another fad. There are times when local autonomy can seem a powerful weapon, in terms of incentives and culture."

Supporters argue it is different this time. The old central purchasing department was a head office function. Today's shared service centre is a free-standing business, based in a green-field location and run by a senior executive on a full-time basis. Its job is to hire and train staff in a service culture. Its customers are the business units, with which it has service agreements. If it fails to give satisfaction, it risks rejection by its clients.

Conversely, if it builds up real expertise, it could offer its services to other corporations, provided there were no issues of competition. There have been no examples of this to date. But for proponents of shared services it is the natural next stage. Well, perhaps. The trouble is that once a shared service centre has been set up, there is powerful pressure on the individual businesses to use it, whether it provides satisfaction or not.

In the case of shared services, there is nowhere else to go – unless, possibly, the corporation takes the next step of outsourcing its services to a management consultant. As for reverting to the status quo, the cost could be formidable. After all, the people who handled the services at the individual businesses have all been cleared out.

In that sense, the move to ahared services could be seen as risky on two levels. There is the immediate risk that it will not work properly, which is where the consultants come in. There is alao the longer-term risk that it could impose a new rigidity on the organisation.

Despite that, it is easy to see the move continuing. As Mr Powell observes, any initiative which offers immediate cost savings of 25-40 per cent is hard to argue with at a time of intense competition.

Indeed, he argues, the cost savings can be extended: for example, by the so-called "commissionaire" principle. This involves setting up a company for France, say, which technically sells direct to the group's French customers. The local sales company, whicb supplies the goods, is treated as an agent working on commission. The local manufacturing plant, similarly, is paid for the use of its equipment.

In that way, Mr Powell argues, the French operation passes on euch operating risks as product obsolescence or bad debts. It also incurs less French tax; and the commissionaire, of course, is based in a low-tax country elsewhere.

Although this is technically distinct from shared services, there is an important point in common. Both are radical experiments in corporate structure. There will be more of those to come. And consultants, of course, will have an important role to play in them.